

SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY

Board Members

C. April Boling
Chairman

Greg Cox
Jim Desmond
Mark Kersey
Robert T. Lloyd
Paul Robinson
Johanna S. Schiavoni
Michael Schumacher
Mark B. West

EXECUTIVE PERSONNEL AND COMPENSATION COMMITTEE MEETING and SPECIAL BOARD MEETING *

AGENDA

Thursday, January 24, 2018
10:00 A.M.

San Diego International Airport
SDCRAA Administration Building -- Third Floor
Board Room
3225 N. Harbor Drive
San Diego, CA 92101

Ex-Officio Board Members

Cory Binns
Col. Charles B. Dockery
Jacqueline Wong-Hernandez

President / CEO

Kimberly J. Becker

This Agenda contains a brief general description of each item to be considered. The indication of a recommended action does not indicate what action (if any) may be taken. If comments are made to the Committee without prior notice or are not listed on the Agenda, no specific answers or responses should be expected at this meeting pursuant to State law. ***Please note that agenda items may be taken out of order.***

Staff Reports and documentation relating to each item of business on the Agenda are on file in Board Services and are available for public inspection.

***NOTE:** This Committee Meeting also is noticed as a Special Meeting of the Board to (1) foster communication among Board members in compliance with the Brown Act; and (2) preserve the advisory function of the Committee.

Board members who are not members of this Committee may attend and participate in Committee discussions. Since sometimes more than a quorum of the Board may be in attendance, to comply with the Brown Act, this Committee meeting also is noticed as a Special Meeting of the Board.

To preserve the proper function of the Committee, only members officially assigned to this Committee are entitled to vote on any item before the Committee. This Committee only has the power to review items and make recommendations to the Board. Accordingly, this Committee cannot, and will not, take any final action that is binding on the Board or the Authority, even if a quorum of the Board is present.

PLEASE COMPLETE A "REQUEST TO SPEAK" FORM PRIOR TO THE COMMENCEMENT OF THE MEETING AND SUBMIT IT TO THE AUTHORITY CLERK. ***PLEASE REVIEW THE POLICY FOR PUBLIC PARTICIPATION IN BOARD AND BOARD COMMITTEE MEETINGS (PUBLIC COMMENT) LOCATED AT THE END OF THE AGENDA.***



CALL TO ORDER

PLEDGE OF ALLEGIANCE

ROLL CALL

Committee Members: Boling, Cox, Desmond (Chair), Kersey

NON-AGENDA PUBLIC COMMENT

Non-Agenda Public Comment is reserved for members of the public wishing to address the Committee on matters for which another opportunity to speak **is not provided on the Agenda**, and which is within the jurisdiction of the Committee. Please submit a completed speaker slip to the Authority Clerk. ***Each individual speaker is limited to three (3) minutes. Applicants, groups and jurisdictions referring items to the Board for action are limited to five (5) minutes.***

Note: Persons wishing to speak on specific items should reserve their comments until the specific item is taken up by the Board.

NEW BUSINESS

1. **APPROVAL OF MINUTES:**
RECOMMENDATION: Approve the minutes of the August 30, 2018 regular meeting.
2. **EMPLOYEE STRATEGY UPDATE:**
Presented by: Kurt Gering, Director, Talent, Culture & Capability and Stephanie Alexander, Sr. Manager, Talent & Organizational Development
3. **EMPLOYEE BENEFITS OPEN ENROLLMENT RECAP AND MARKET UPDATE:**
Presented by: Joy Freeman, Manager, Safety & Wellness and Heather Hill, Associate Director, Willis Towers Watson
4. **AMENDMENT NO. 6 TO THE AMENDED AND RESTATED SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY RETIREMENT PLAN AND TRUST OF 2103:**
RECOMMENDATION: Forward Amendment No. 6 to the Amended and Restated Retirement Plan Trust of 2013 to the Board for approval.
Presented by: Kurt Gering, Director, Talent, Culture & Capability

CLOSED SESSION

5. **PUBLIC EMPLOYEE PERFORMANCE EVALUATION:**
Cal. Gov. Code §54957
Title: President/Chief Executive Officer

6. **PUBLIC EMPLOYEE PERFORMANCE EVALUATION:**
Cal. Gov. Code §54957
Title: General Counsel

7. **PUBLIC EMPLOYEE PERFORMANCE EVALUATION:**
Cal. Gov. Code §54957
Title: Chief Auditor

REPORT ON CLOSED SESSION

COMMITTEE MEMBER COMMENTS

ADJOURNMENT

**Policy for Public Participation in Board, Airport Land Use Commission (ALUC),
 and Committee Meetings (Public Comment)**

- 1) Persons wishing to address the Board, ALUC, and Committees shall complete a "Request to Speak" form prior to the initiation of the portion of the agenda containing the item to be addressed (e.g., Public Comment and General Items). Failure to complete a form shall not preclude testimony, if permission to address the Board is granted by the Chair.
- 2) The Public Comment Section of the agenda is reserved for persons wishing to address the Board, ALUC, and Committees on any matter for which another opportunity to speak is not provided on the Agenda, and on matters that are within the jurisdiction of the Board.
- 3) Persons wishing to speak on specific items listed on the agenda will be afforded an opportunity to speak during the presentation of individual items. Persons wishing to speak on specific items should reserve their comments until the specific item is taken up by the Board, ALUC and Committees.
- 4) If many persons have indicated a desire to address the Board, ALUC and Committees on the same issue, then the Chair may suggest that these persons consolidate their respective testimonies. Testimony by members of the public on any item shall be limited to **three (3) minutes per individual speaker and five (5) minutes for applicants, groups and referring jurisdictions.**
- 5) Pursuant to Authority Policy 1.33 (8), recognized groups must register with the Authority Clerk prior to the meeting.
- 6) After a public hearing or the public comment portion of the meeting has been closed, no person shall address the Board, ALUC, and Committees without first obtaining permission to do so.

Additional Meeting Information

NOTE: This information is available in alternative formats upon request. To request an Agenda in an alternative format, or to request a sign language or oral interpreter, or an Assistive Listening Device (ALD) for the meeting, please telephone the Authority Clerk's Office at (619) 400-2400 at least three (3) working days prior to the meeting to ensure availability.

For your convenience, the agenda is also available to you on our website at www.san.org.

For those planning to attend the Board meeting, parking is available in the public parking lot located directly in front of the Administration Building. Bring your ticket to the third floor receptionist for validation.

You may also reach the Administration Building by using public transit via the San Diego Metropolitan Transit System, Route 992. The MTS bus stop at Terminal 1 is a very short walking distance from the Administration Building. ADA paratransit operations will continue to serve the Administration Building as required by Federal regulation. For MTS route, fare and paratransit information, please call the San Diego MTS at (619) 233-3004 or 511. For other Airport related ground transportation questions, please call (619) 400- 2685.

UPCOMING MEETING SCHEDULE

<i>Date</i>	<i>Day</i>	<i>Time</i>	<i>Meeting Type</i>	<i>Location</i>
March 28	Thursday	9:00 a.m.	Regular	Board Room

DRAFT
**SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY
EXECUTIVE PERSONNEL AND COMPENSATION COMMITTEE MEETING MINUTES
THURSDAY, AUGUST 30, 2018
BOARD ROOM**

CALL TO ORDER: Chair Desmond called the Executive Personnel and Compensation Committee meeting to order at 10:02 a.m., on Thursday, August 30, 2018, in the Board Room of the San Diego International Airport, Administration Building, 3225 N. Harbor Drive, San Diego, CA 92101.

PLEDGE OF ALLEGIANCE:

ROLL CALL:

Present: Committee Members: Boling, Desmond (Chair), Kersey

Absent: Committee Members: Cox

Also Present: Kimberly Becker, President/CEO; Amy Gonzalez, General Counsel;
Linda Gehlken, Assistant Authority Clerk I; Martha Morales,
Assistant Authority Clerk I

NON-AGENDA PUBLIC COMMENT: None.

NEW BUSINESS:

2. COMPENSATION PHILOSOPHY & STRATEGY PLAN:

Kurt Gering, Director, Talent, Culture & Capability, provided a presentation on the Compensation Philosophy and Strategy Plan which included Employee Strategy, Compensation Philosophy, Personnel Costs as % Operating Expense /Revenue, Workforce Evolution, Public Employee Pension Reform Act, Labor Market Trends and Impacts, Resulting Current Challenges, Elements of Total Rewards, Proposed Focus, Desired Outcomes, and Timeline.

1. APPROVAL OF MINUTES:

RECOMMENDATION: Approve the minutes of the May 31, 2018 regular meeting.

ACTION: Moved by Board Member Boling and seconded by Board Member Kersey to approve staff's recommendation. Motion carried unanimously, noting Board Member Cox as ABSENT.

3. RENEWAL OF THE HEALTH & WELFARE BENEFITS PROGRAM FOR 2019:

Kurt Gering, Director, Talent, Culture & Capability; and Heather Hill, Associate Director, Willis Towers Watson, provided a presentation on the renewal of the Health and Welfare Benefits Program for 2019, which included Program

Summary, Renewal Analysis of Active and Budgeted Employees, Retiree Renewal Analysis, Combined Elements, Efficiency & Budget Considerations, and Authority Budget Summary.

Chair Desmond requested that staff provide an evaluation of the pros and cons of aligning the Health Benefits Renewal period with the timing of the approval of the budget, which is on a fiscal year cycle.

Board Member Boling suggested considering whether the enhancing of dental benefits should be postponed to another year, due to the rising costs of other program components.

RECOMMENDATION: Forward this item to the Board with a recommendation for approval.

ACTION: Moved by Board Member Kersey and seconded by Chair Desmond to approve staff's recommendation. Motion carried unanimously, noting Board Member Cox as ABSENT.

CLOSED SESSION:

REPORT ON CLOSED SESSION:

COMMITTEE MEMBER COMMENTS: None.

ADJOURNMENT: The meeting adjourned at 11:31 a.m.

APPROVED BY A MOTION OF THE SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY EXECUTIVE PERSONNEL AND COMPENSATION COMMITTEE THIS 24TH DAY OF JANUARY, 2019.

KURT GERING
DIRECTOR,
TALENT, CULTURE AND CAPABILITY

ATTEST:

LINDA GEHLKEN
ASSISTANT AUTHORITY CLERK I

Item 2



Employee Strategy Update

Presented by:

Kurt Gering | Director, Talent, Culture & Capability

Stephanie B. Alexander | Sr. Manager, Talent & Organizational Development

January 24, 2019



Agenda

- Employee Initiatives
- Leadership
- Career Development
- ACE Interns | Take Flight
- Veterans Program
- Diversity & Inclusion
- Compensation

Employee Initiatives

- Create an effective succession and transition plan for ongoing leadership changes
- Develop leaders to be better coaches who enable independent decision making
- Train and develop business driven, agile and collaborative capabilities
- Attract a new generation of diverse employees and leaders
- Determine innovative, flexible organizational staffing needs that reflect the ADP and capital program
- Develop compensation and benefits programs for a multi-generational workforce that recognize individual strategic contributions

Develop Leaders:

BUILDING LEADERSHIP COMPETENCIES

Business Acumen

ACI: Airline Management for Airport Professionals

ACI: Developing a Customer Service Culture at Airports

Strategic Thinking

Negotiation

Executive Presence: Think & Speak Like an Executive

Cultural Leadership

Building a Personal Brand?

iGeneration (Gen Z) is coming

Relationship Building

Monthly Manager Peer Group Meetings

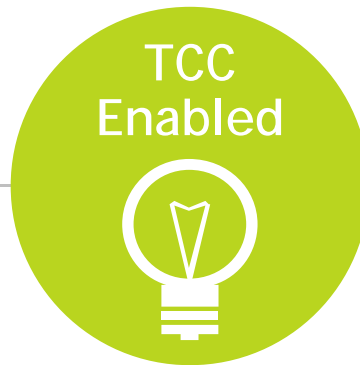
Quarterly Manager Roundtable Sessions

Train and Develop

Career Development



Employees are empowered to have development conversations with their leaders and are aware of resources available to develop their careers.



TCC acts as an enabler of development for employees and leaders. Providing a cohesively branded, flexible and relevant program.



Leaders are empowered to own people development and are able to provide the necessary tools to do so.

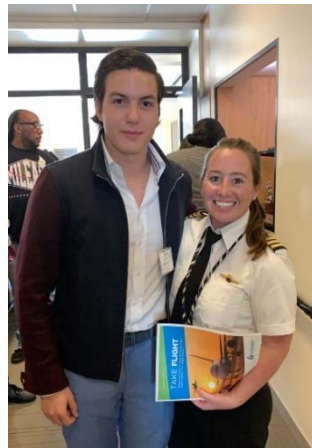
Attract a New Generation



- 10 week summer program / 10-15 interns per cohort
- Mentor opportunities for staff
- Six SAN employees are alumni of the ACE program

- Department projects (70%)
- Airport classroom learning - operations/management (20%)
- Cross functional projects (10%)

Attract a New Generation



- Students from area high schools, colleges and universities
- Panel discussion about careers in aviation
- 3 hour session held quarterly
- Opportunity to meet and speak to aviation professionals
- 608 college/university and high school students have participated

Innovative Staffing



Diverse and Inclusive Environment



Cultural Engagement Series



Lion Dancers
Chinese Moon Festival
Sept. 2018



Martin Luther King Jr. Community Choir
African American History Month
Feb. 2018



Diwali Dancers
Diwali (Festival of Lights)
Oct. 2017

Inclusive Growth Steering Committee



The screenshot displays the San Diego Regional EDC website. The header includes the EDC logo, navigation links (About the Region, World Trade Center SD, Our Economy, Our Services, Research Center, News & Events, Blog, About EDC), a newsletter sign-up button, and social media icons. A breadcrumb trail shows 'Home > Research Center > Inclusive Growth'. The main content area features a cityscape image at sunset with the title 'Inclusive Growth'. Below the image, the text reads: 'The growth of San Diego's innovation economy has made the region better educated and more prosperous than most of its peers. However, this economic transformation presents new challenges for future growth. If unaddressed, San Diego will no longer be an attractive place to live and do business. See the data in our interactive web study: talent.inclusivesd.org. For the region to remain competitive, proactive measures to promote economic inclusion must be taken. Throughout 2018, EDC and its Inclusive Growth Steering Committee will develop measurable targets and actionable recommendations that together create a platform for inclusive economic growth and achieve **three main goals**:

- Building a Strong Local Talent Pipeline** (+ Track Progress)
- Equipping Small Businesses to Compete** (+ Track Progress)
- Addressing the Affordability Crisis** (+ Track Progress)

Compensation

Timeframe	Action
January 14	Engage Marsh & McLennan as compensation consultants
January	Discovery phase
February	Analysis phase
March 28	Executive Personnel & Compensation Committee
April	Deliver recommendation

Employee Strategy Success Measures

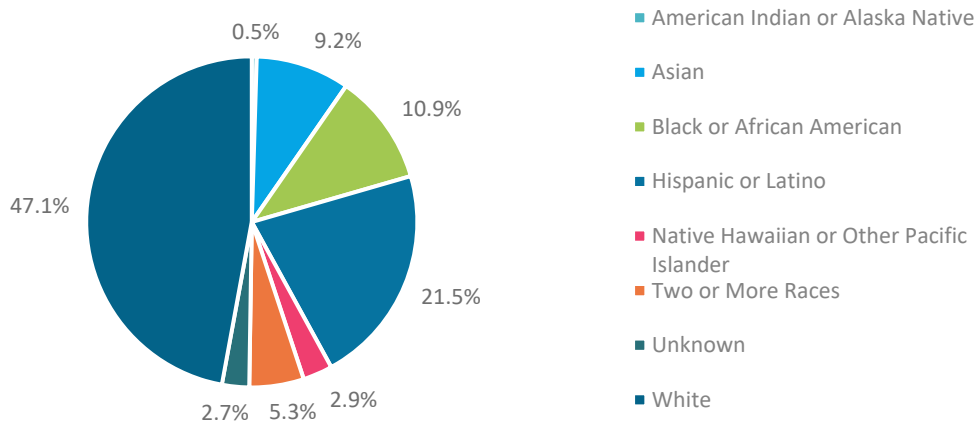
- Attract and retain a highly engaged, highly productive workforce; and

Dimension	2022 Target* (at or above)	2017 Survey	2018 Pulse
Engagement	78%	83%	85%
Supervision	71%	77%	NA
Benefits	Positive correlation	✓	NA
Pay	No negative correlation	?	NA
Work Environment	68%	68%	NA
Teamwork	51%	79%	NA

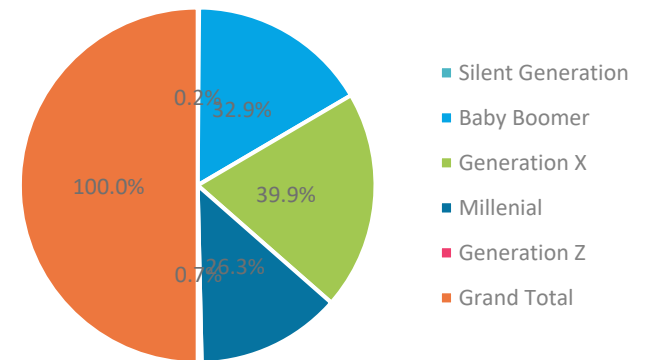
Employee Strategy Success Measures

- Achieve diversity at all levels in the organization that furthers innovation and problem solving.

Employees by Ethnicity



Employees by Generation



Questions?



Item 3



EMPLOYEE BENEFITS OPEN ENROLLMENT RECAP AND MARKET UPDATE

Presented by:

Joy Freeman | Manager, Wellness & Safety

Heather Hill | Associate Director, Willis Towers Watson

January 24, 2019



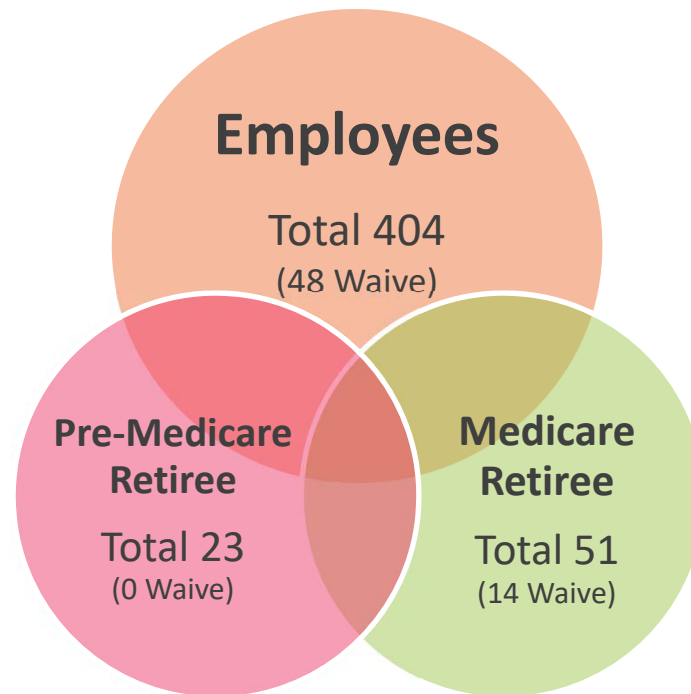
Agenda

- Programs Overview
- 2019 Enrollments
- Wellness
- Retiree Programs

Health & Welfare Benefits Programs

	Active Employees	Pre-Medicare Retirees	Medicare Enrolled Retirees
Medical	Blue Shield (HMO, HMO Trio, PPO, HDHP)	Blue Shield (HMO, HMO Trio, PPO, HDHP)	United Healthcare (Medicare Advantage Plan)
Dental – DHMO / PPO	Offered	Offered	Offered
Vision – PPO	Offered	Offered	Offered
Basic Life/AD&D	Offered	Offered	Offered
Employee Assistance Program (EAP)	Offered	Offered	Offered
Health Advocate	Offered	Offered	Offered
Other Ancillary	Disability, FSA, HSA		
Voluntary	Long Term Care, Legal, Identity Theft, Auto & Home, Pet		

Population





Employee Program

404 Active Only



Authority Only Budget Summary

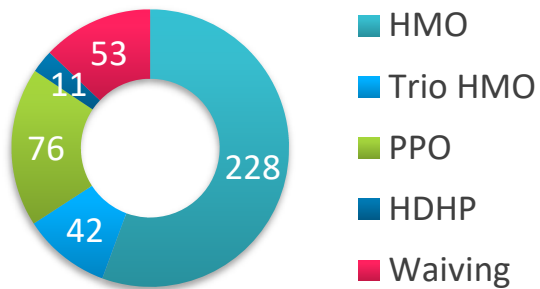
Description	Current CY 2018**	Anticipated Costs CY 2019 */**	CY Budgeted 2019 Costs*/**	\$ Difference Between Anticipated and Budgeted	% Difference Between Anticipated and Budgeted
Medical	\$4,156,564	\$4,674,108	\$4,521,187	+\$152,921	+3.4%
Dental	\$330,950	\$346,488	\$344,256	+\$2,232	+0.6%
Other lines (Life, Disability, Health Advocate)	\$266,359	\$256,225	\$272,923	-\$16,698	-6.1%
TOTAL	\$4,753,873	\$5,276,821	\$5,138,365	+\$138,455	+2.7%

* Includes vacant positions all CY 2019

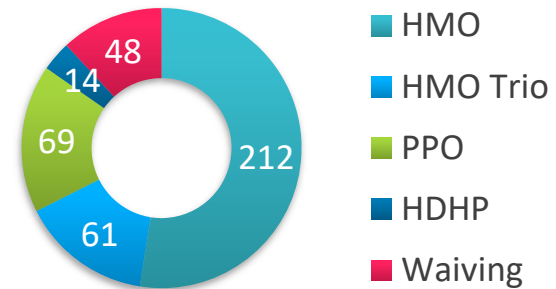
** Includes employees that waive insurance

2019 Medical Enrollments

2018 Plan Year



2019 Plan Year



- There are 6 less benefit eligible employees in the 2019 plan year
- There was an additional shift into the HMO Trio plan of 19 employees. The majority appear to have come from the HMO plan, while others from the PPO plan. We also saw 3 more enrollments into the HDHP plan—also likely from the PPO offering.

404 Total Employees (Active Only)

2019 Dental Plan Enrollments



74%|PPO

301 Employees enrolled in the dental DPPO plan



20%|HMO

80 Employees enrolled in the dental DHMO plan

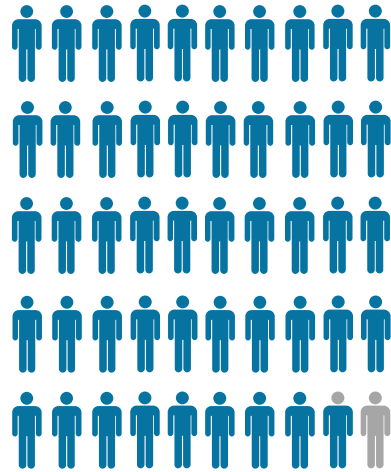


6%|Waive

23 Employees elected to waive dental enrollment

404 Total Employees (Active Only)

Wellness Participation



98.6% | Employees enrolled in medical

Incentives:

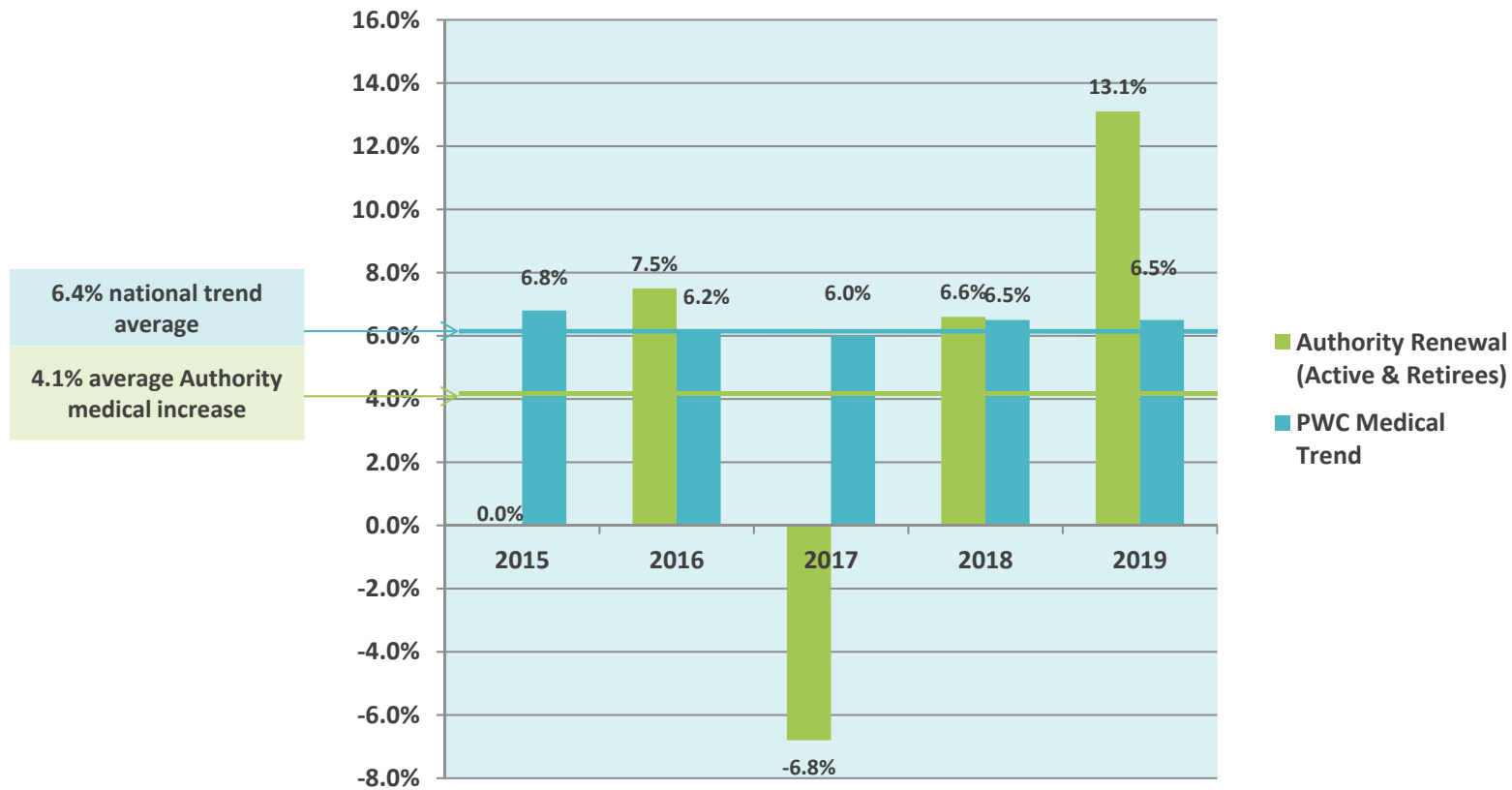
- Differential (reduction) equivalent to 5% of the individual premium cost
- \$250 Flexible Spending Account (FSA)/Health Savings Account (HSA)/457 Deferred Compensation Plan deposit

Healthcare Reform

Requirement	Legislative Cost
Patient Centered Outcomes Research Institute Fee Funds clinical effectiveness research	2019: Fee does not apply to 2019 plan year
Fully Insured Fee Funds federal and state marketplaces/exchanges	2019: Fee is suspended

5 Year Review

% Health Benefit Renewal Increase vs. Trend



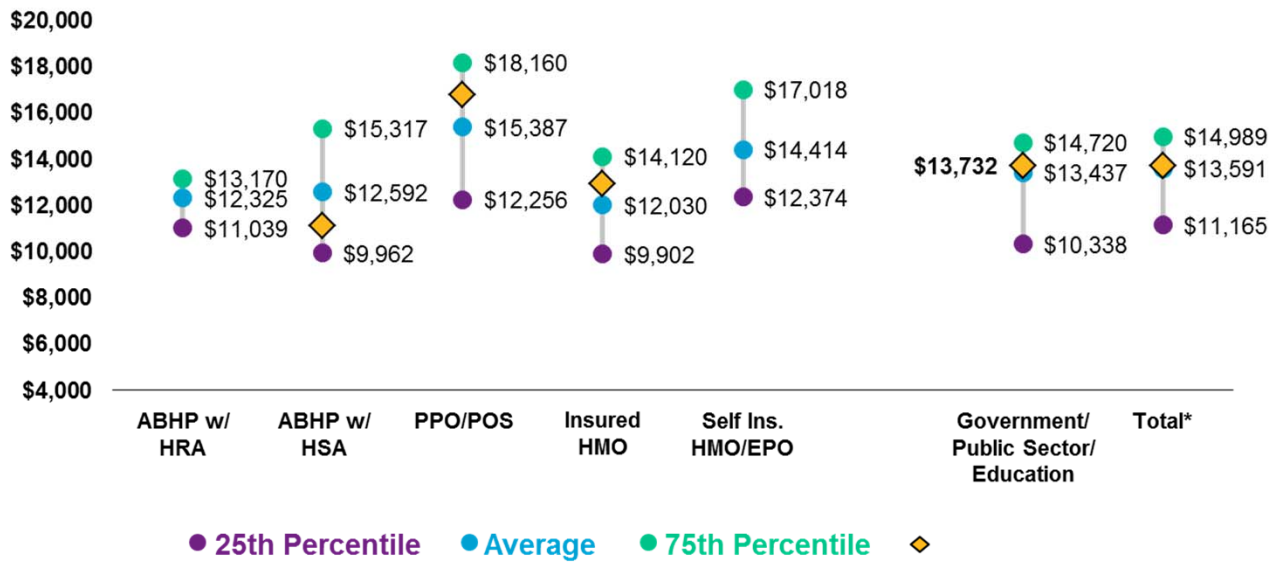
Source: U.S. Medical trend data provided by PWC Health Research Institute

Medical Cost Benchmarks

Total Cost per Covered Employee per Year (unadjusted)



How do your plan costs compare? How does enrollment across plan type impact the average cost? Even if total plan costs are favorable, are some plans more exposed to the excise tax?



Your actual costs are 1% above the benchmark average, 2% above average for your industry.

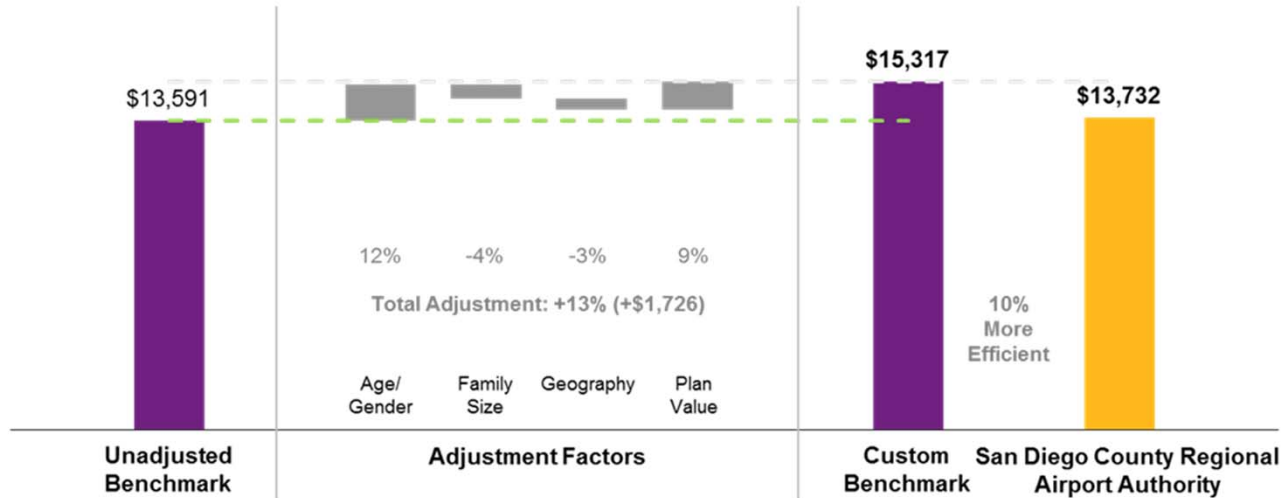
*Total costs represent an enrollment weighted average of all plan types.

Medical Cost Benchmarks

Overall Program Efficiency



After adjustments, how efficient is your total plan overall?
What is the financial impact of moving to benchmark performance?



Your total program is 10% more efficient than the average database performance. This translates into a current savings of \$0.6 million. Relative to top quartile performers, your total program is 3% less efficient, translating into a potential cost avoidance of \$0.2 million.



Retiree

51 Medicare Enrolled

23 Pre-Medicare



2019 Medical Enrollments

Pre-Medicare Retirees (23)



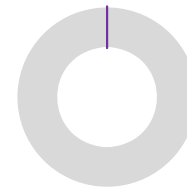
61% | **Blue Shield PPO**

14 pre-Medicare retirees (under age 65) elected PPO coverage



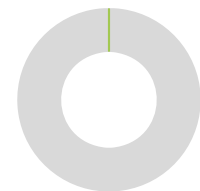
39% | **Blue Shield HMO**

9 pre-Medicare retirees (under age 65) enrolled elected HMO coverage



0% | **Blue Shield TRIO HMO**

0 pre-Medicare retiree (under age 65) enrolled elected Trio HMO coverage



0% | **Waive**

0 pre-Medicare retiree (under age 65) waived coverage

Medicare Enrolled Retirees (51)

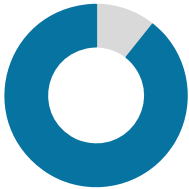


73% | **United Healthcare PPO**
37 Medicare eligible retirees are enrolled



27% | **Waive**
14 Medicare eligible retirees have waived coverage

2019 Dental Enrollments



88%|PPO

67 total retirees enrolled in the dental DPPO plan



7%|HMO

5 total retirees enrolled in the dental DHMO plan



5%|Waive

4 total retirees elected to waive dental enrollment

23 Pre-Medicare Retirees/ 51 Medicare Enrolled Retirees

Questions?



EXECUTIVE PERSONNEL

Meeting Date: **JANUARY 24, 2019**

Subject:

Amendment No. 6 to the Amended and Restated San Diego County Regional Airport Authority Retirement Plan and Trust of 2013

Recommendation:

Forward Amendment No. 6 to the Amended and Restated Retirement Plan and Trust of 2013 to the Board for approval.

Background/Justification:

For the benefit of the employees of the Authority and their beneficiaries, on January 1, 2003, the Board of the San Diego County Regional Airport Authority ("Authority") adopted the San Diego City Employees' Retirement System Retirement Plan ("Plan") for Airport Authority Employees, said Plan having been previously amended or restated in 2004, [Resolution 2004-0039], in 2007 [Resolution 2007-0082], in 2008 [Resolution 2008-0078], in 2012 [Resolution 2012-0069], in 2013 [Resolution 2013-0072R], in 2014 [Resolution 2014-0095], in 2015 [Resolution 2015-0090], 2016 [Resolution No. 2016-0024], and in 2017 [Resolutions 2017-0072 and 2017-0073].

The Plan is a qualified governmental pension plan under § 401(a) and § 414(d) of the Internal Revenue Code of 1986, as amended. The Plan is administered by the San Diego City Employees' Retirement System ("SDCERS") pursuant to the terms of the San Diego City Employees' Retirement System Participation and Administration Agreement ("P & A Agreement") approved by the Board in 2007 [Resolution 2007-0054].

SDCERS administers the Plan under a group trust as set forth in the Declaration of Trust approved by the Board in 2007 [Resolution 2007-0054] pursuant to IRS Code § 401(a)(24) and in accordance with IRS Revenue Ruling 81-100, as revised by Revenue Ruling 2004-67. Pursuant to the P & A Agreement, San Diego Municipal Code §24.1806 and the provisions of the group trust, the Plan is treated as a separate retirement plan with a separate trust, separate from the plans of the City of San Diego and the San Diego Unified Port District. However, the assets of the three plans are commingled for investment purposes only.

2014 - Amendment No. 1 to Plan (§§ 0800-0803). In 2014 at the request of SDCERS, the Authority amended § 0800 and added §§ 0801 - § 0803 to the Plan to resolve questions raised by the Internal Revenue Service (“IRS”) regarding how employee contributions are “offset” and “picked-up” by the Authority.

2015 – Amendment No. 2 to Plan. In 2015, the Plan was amended to correct an inadvertent error made when the plan documents were amended in 2004 relating to the definition used to calculate Final Compensation.

2016 - Amendment No. 3 to Plan. In 2015, SDCERS recommended that § 0802 be amended to address the concerns of the internal auditor. The amendment reflects the current and past practice of SDCERS regarding offsets and pick-ups and clarifies in the Plan that all three contributions are subject to the Plan’s offset provisions and the pickup provisions provided for in IRS Code § 414(h)(2) and Plan § 0204.

2017 - Amendment No. 4 to the Plan. In 2017, SDCERS recommended that Section 0103 of the Plan be amended to prevent any ambiguity in regard to SDCERS Board Rule 3.30 and Section 0400(f) of the Plan which together govern plan participation and prevent over-lapping service credit when a full-time employee works for more than one agency with an SDCERS-administered retirement plan at the same time.

2017 - Amendment No. 5 to the Plan. In 2017, the Plan was amended to correct an inadvertent error made when the plan documents were amended in 2013 relating to a cross-references in subsection (e) and (h) of Section 0300 of the Plan which provides the eligibility for and calculation of a service retirement benefit.

Proposed Plan Amendment No. 6: This addresses an audit finding from the SDCERS Plan Sponsor Contribution & Reporting Audit and two recommendations from the Airport Authority’s Chief Auditor.

SDCERS Internal Audit conducts a Plan Sponsor Contribution & Reporting Audit every three years. The Audit for the period July 1, 2016 through June 30, 2017 found that the Plan is silent on how to report Base Compensation when a full-time employee works less than a standard eighty (80) hours or has a portion of the standard hours as overtime. The proposed amendment adds clarifying language to Section 0203 to give direction to SDCERS to calculate Base Compensation using a standard eighty (80) hour per pay period when the employee’s pay for that period is sufficient to make the required employee contribution. The amendment further directs SDCERS to use zero (0) hours when the employee’s pay for that period is not sufficient to make the required employee contribution. In an instance where an employee does not have sufficient pay to make the required employee contribution, the employee may request a Purchase of Service Credit from SDCERS, as allowable, under Section 1100 of the Plan.

The proposed Amendment also clarifies the interest rate to be credited to Non-vested Member accounts. In order to be eligible for a retirement benefit, as defined in Section 0300 of the Plan, a Member must reach a certain age and have a certain number of years of Service Credit. Terminated Members who do not establish reciprocity and are ineligible for a retirement benefit due to lack of sufficient Service Credit are known as Inactive Non-Vested Members. Currently SDCERS credits Non-Vested Member accounts at the discount interest rate assumed for investments annually. Crediting these Non-Vested Member accounts at the discount rate, which is currently set at 6.75%, risk free is contrary to the Plan’s purpose and exposes the Authority to risks when the current and future investment returns do not meet or exceed the interest rate credited to Non-Vested Member accounts. The proposed amendment would revise Section 0901 to provide direction to SDCERS to credit interest to all Non-Vested Member accounts by using a similar methodology to that used to credit interest to Deferred Retirement Option Plan (DROP) Member accounts. This rate is established by the Plan administrator and is currently a blend of 75% of the five-year U.S. Treasury rate and 25% of the five-year High Quality Market (HQC) bond rate.

Finally, Section 1100 of the Plan currently allows Members that were previously employed with the City of San Diego (“City”) or the San Diego Unified Port District (“Port”) to purchase Authority Service Credit for time served with the City or Port when they were not making contributions to SDCERS. In effect, an individual could be hired by the Authority, purchase service credit for prior time worked at the City or Port, and then immediately service retire with as little as a few weeks of employment with the Authority. It is unlikely this type of situation was ever anticipated or intended by the Authority. The proposed amendment clarifies Section 1100 to only allow a Purchase Service Credit in those instances which are outlined in Subsections (b) through (e) for any employee hired after February 7, 2019. The amendment would have no impact on any other allowable Purchase of Service Credit provisions as defined in Sections 1101 through 1106.

Fiscal Impact:

The proposed amendments may have a small favorable financial impact to long-term Authority pension costs.

Authority Strategies:

This item supports one or more of the Authority Strategies, as follows:

- Community Strategy
- Customer Strategy
- Employee Strategy
- Financial Strategy
- Operations Strategy

Environmental Review:

- A. CEQA: This Board action is not a project that would have a significant effect on the environment as defined by the California Environmental Quality Act ("CEQA"), as amended. 14 Cal. Code Regs. §15378. This Board action is not a "project" subject to CEQA. Cal. Pub. Res. Code §21065.
- B. California Coastal Act Review: This Board action is not a "development" as defined by the California Coastal Act. Cal. Pub. Res. Code §30106.

Application of Inclusionary Policies:

Not applicable.

Prepared by:

KURT GERING
DIRECTOR, TALENT, CULTURE & CAPABILITY

DRAFT FOR DISCUSSION PURPOSES

**AMENDMENT NO. 6
TO THE AMENDED AND RESTATED
SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY
RETIREMENT PLAN AND TRUST OF 2013**

RECITALS

WHEREAS, the San Diego County Regional Airport Authority ("Authority") adopted the San Diego City Employees' Retirement System Retirement Plan for Airport Authority Employees effective January 1, 2003, which was amended by (1) the San Diego City Employees' Retirement System Retirement Plan for Airport Authority Employees on May 3, 2004, (2) the Amended and Restated San Diego County Regional Airport Authority Retirement Plan and Trust of 2008, (3) the Amended and Restated San Diego County Regional Airport Authority Retirement Plan and Trust of 2013 on January 1, 2013, (4) Amendment No. 1 to the Amended and Restated San Diego County Regional Airport Authority Retirement Plan and Trust of 2013, (5) Amendment No. 2 to the Amended and Restated San Diego County Regional Airport Authority Retirement Plan and Trust of 2013 (6) Amendment No. 3 to the Amended and Restated San Diego County Regional Airport Authority Retirement Plan and Trust of 2013, (7) Amendment No. 4 to the Amended and Restated San Diego County Regional Airport Authority Retirement Plan and Trust of 2013, and (8) Amendment No. 5 to the Amended and Restated San Diego County Regional Airport Authority Retirement Plan and Trust of 2013 (hereinafter, the "Plan") for the benefit of its employees and their beneficiaries, and

WHEREAS, the Authority was established by the California Public Utilities Code §§ 170000 *et seq.* and was separated from the San Diego Unified Port District ("Port District") effective January 1, 2003; and

WHEREAS, the Plan is created pursuant to Section 149 of the Charter of the City of San Diego and Chapter 2, Article 4, Division 18 in the San Diego Municipal Code; and

WHEREAS, the Plan is intended to and operates to satisfy the qualification requirements of the Internal Revenue Code § 401(a) and is established and maintained as a qualified governmental pension plan in accordance with Internal Revenue Code § 414(d). *See* §§ 1000(a) and (d) of the Plan; and

WHEREAS, the San Diego City Employees' Retirement System ("SDCERS") administers the Plan pursuant to the terms of the San Diego City Employees' Retirement System Participation and Administration Agreement ("P & A Agreement"), approved by the Authority's Board in 2008; and

WHEREAS, SDCERS administers the Plan under a group trust (as set forth in the Declaration of Trust approved by the Board May 3, 2007, and made effective July 1, 2007) pursuant to IRS Code § 401(a)(24) and in accordance with IRS Revenue Ruling 81-100, as revised by Revenue Ruling 2004-67; and

DRAFT FOR DISCUSSION PURPOSES

WHEREAS, pursuant to the P & A Agreement, San Diego Municipal Code § 24.1806 and the provisions of the Group Trust, the Plan is treated as a separate retirement plan with a separate trust, separate from the plans of the City of San Diego and the San Diego Unified Port District, however the assets of the three plans are commingled for investment purposes; and

WHEREAS, in October, 2018 the SDCERS' internal auditor found that the Plan is silent on how to report Base Compensation when a full time employee works less than a standard eighty hours or has a portion of the standard hours as overtime; and

WHEREAS, the proposed amendment clarifies that Base Compensation shall be calculated using a standard eighty hour per pay period when the employee's pay for that period is sufficient to make the required Employee Contribution; and

WHEREAS, the interest rate on non-vested inactive Member accounts is currently calculated at the discount rate which is contrary to the Plan's purpose and exposes the Authority to risks when current and future investment returns do not meet or exceed the interest rate credited to non-vested inactive Member accounts; and

WHEREAS, the proposed amendment provides direction to SDCERS to credit interest to all non-vested inactive accounts by using a similar methodology to that used to credit interest to Deferred Retirement Option Plan (DROP) Member accounts; and

WHEREAS, in 2006, the Board limited the ability to purchase Service Credits for employees hired after a certain date however section 1100 of the Plan still allows individuals that were previously employed by the City of San Diego ("City"), the San Diego Unified Port District ("Port") and the Authority to purchase service credits for time served with the City, Port or the Authority when they were not contributing to the Plan; and

WHEREAS, the proposed amendment clarifies that individuals are only allowed to purchase Service Credits in certain instances outlined in the Plan; and

WHEREAS, the Plan is amended as follows:

AMENDMENT

NOW, THEREFORE, effective as stated herein, Authority amends the Plan as follows:

1. Section §0203 is amended to read as follows:

"Employee Contributions are deducted by the Airport Authority and transferred to the Administrator on a bi-weekly basis for crediting to each Member's account in this Plan. Base Compensation shall be calculated using a standard eighty (80) hour pay period when an employee's pay for that period is sufficient to make the required Employee Contribution. When a Member's pay for the pay period

DRAFT FOR DISCUSSION PURPOSES

is not sufficient to make the required Employee Contribution, the Member shall receive zero (0) Service Credits for that pay period. In instances where the Member does not have sufficient pay during the pay period to make the Employee Contribution, a Member may request a Purchase of Service Credit pursuant to section 1100 of the Plan.”

2. Section §0901 is amended to read as follows:

“The Administrator credits interest to the accounts for Employee Contributions and Employer Contributions at a rate determined by the Administrator, compounded each June 30th. Notwithstanding the foregoing, for inactive non-vested Member’s Accumulated Contributions that have not been forfeited pursuant to §0902 or §0903, the Administrator shall credit interest using the methodology used to credit Deferred Retirement Option Plan (DROP) Member accounts.”

3. Section §1100 is amended to delete subsection (a)

4. The last sentence of Section §1103 is amended to read as follows:

“A Member hired by the Airport Authority after October 2, 2006, is not entitled to purchase Service Credit under this Division.”

IN WITNESS WHEREOF, the Authority has caused this Amendment No. 6 to be executed as of this ____ day of February 2019, to be effective as of February ____, 2019.

<p>Approved as to Form:</p> <p>By: _____ General Counsel</p> <p>Date: _____</p>	<p>SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY</p> <p>By: _____</p> <p>Title: _____</p> <p>Date: _____</p> <p>Trustee: _____</p>
<p>Approved as to Form:</p>	<p>BOARD OF ADMINISTRATION FOR THE SAN DIEGO CITY EMPLOYEES</p>

DRAFT FOR DISCUSSION PURPOSES

<p>By: _____ General Counsel</p> <p>Date: _____</p>	<p>RETIREMENT SYSTEM</p> <p>By: _____</p> <p>Title: _____</p> <p>Date: _____</p>
---	---

Item 4



Amended & Restated SDCRAA Retirement Plan & Trust of 2013

Proposed Amendments 6

January 24, 2019



Agenda

- Plan History
- Plan Sponsor Audit
- Reporting of Hours & Service Credit
- Inactive Non-Vested Member Accounts
- Purchase of Service Credits
- Committee Action

Plan History

For the benefit of the employees of the Authority and their beneficiaries, the Authority Board adopted a Retirement Plan. SDCERS administers the Plan under a group trust but the Plan is separate from the plans of the City of San Diego and the San Diego Unified Port District except that the assets of the three plans are commingled for investment purposes only.



Resolve IRS questions regarding how employee contributions are “offset” or “picked-up.”



Correct an administrative error related to the definition used to calculate Final Compensation.



Clarify treatment of offsets and pick-ups under the provisions provided by the IRS and the Plan.



Clarify rules governing participation when a full-time employee works for more than one SDCERS administered plan at the same time.



Correct an administrative error related to the eligibility and calculation of a service retirement benefit.

Proposed Amendment 6

- Requested in response to:
 - Plan Sponsor Audit Findings
 - Recommendations made by the Authority's Chief Auditor to reduce potential liabilities



Plan Sponsor Audit

With three plans administered by SDCERS, an audit of the plan sponsor is completed in rotation once every three years. The audit tests member files at random.

Every two weeks the Authority sends SDCERS a transmittal file that contains over 5,500 pieces of information on approximately 400 Members. The information includes:

- Member name
- Pensionable salary
- Member contributions
- Class of employee
- Member date of birth.

The transmittal file is used by SDCERS to update each Member's data contained within SDCERS' pension administration system, IRIS. Member data is used by SDCERS to determine items such as service retirement eligibility, monthly base salary for benefits, benefit formula, and death benefits. Collectively, the underlying Member data is referred to as census data.

The objective of the audit is to evaluate the accuracy and completeness of the census data submitted and to verify the accuracy and adequacy of that information.

Findings

1. **The Airport Plan is silent on how to report Base Compensation when a Full-Time employee works less than his/her standard hours or has a portion of his/her standard hours as overtime.**
2. The SDCERS Board has not reviewed the APA PEPRA forms of compensation to ensure the Airport has not included items prohibited by PEPRA. [\[Resolved by SDCERS Board review and confirmation\]](#)
3. The Airport is making contributions to PEPRA Members' defined contribution accounts that exceed the limits in Government Code Section §7522.10(g). [\[Resolved by Authority Board Resolution 2018-0129\]](#)
4. The Airport incorrectly reported a PEPRA Member as a General Member. [\[Resolved through Authority software program update controls\]](#)

Service Credit & Base Compensation

- Resolve Audit Finding #1 by adding clarifying language to Section 0203 of the Plan:
 - Direct SDCERS to calculate Base Compensation using a standard eighty (80) hours per pay period when the employee's pay for that period is sufficient to make the required employee contribution;
 - Direct SDCERS to use zero (0) hours when the employee's pay for that period is not sufficient to make the required employee contribution; and
 - In an instance where an employee does not have sufficient pay to make the required employee contribution, the employee may request a Purchase of Service Credit from SDCERS, as allowable, under Section 1100 of the Plan.

Service Credit & Base Compensation

The proposed Amendment offers benefits to both the Authority and the employee by simplifying the process and reducing the risk of potential human error.



Ease of Understanding

In a typical payroll period an employee is expected to work 80 hours and can earn a maximum of 80 hours of service credit in a two week payroll period. Using a standard 80 hours and paying the full employee contribution on the 80 hours results in a consistent payroll deduction from the employee's pay check. Both the City and the Port Authority use this methodology.



Ease of Administration

Reporting the actual hours worked, paid time off, overtime, and excess time off would result in having to run two parallel pay period processes: one for payroll following the FLSA and one for SDCERS to accurately reflect the hours of service credit and base compensation. This introduces a greater risk of potential errors and would require significant software reprogramming for overtime and leave reporting.



Avoidance of Future Burden

The Authority pays the full employer contribution for the employee's 80 hours for that payroll period regardless of the hours worked. Not charging the full employee contribution for the 80 hours results in the employee having to file for a Purchase of Service Credit in the future and pay interest accrued on that unfunded portion.

Inactive Non-Vested Member Accounts

- Terminated Members who do not establish reciprocity and are ineligible for a retirement benefit due to lack of sufficient Service Credit are known as inactive non-vested Members.
- Revise Section 0901 to provide direction to SDCERS to credit interest to all non-vested Member accounts by using a similar methodology to that used to credit interest to Deferred Retirement Option Plan (DROP) Member accounts.
 - Established by the Plan Administrator and is currently a blend of 75% of the five-year U.S. Treasury rate and 25% of the five-year High Quality Market (HQC) bond rate.

Inactive Non-Vested Member Accounts

The proposed Amendment reduces potential future liabilities and is consistent with the Plan's intent to provide Vested Members retirement benefits.



Avoids Potential Liabilities

Currently SDCERS credits Non-Vested Member accounts at the discount rate assumed by the SDCERS Board for plan investments. As of June 30, 2018 this was 6.75%. Crediting these Non-Vested Member accounts at the discount rate exposes the Authority to risks when the investment returns do not meet or exceed the interest rate credited.



Consistent with Plan Purpose

The purpose of the Plan is to “recognize an obligation to Airport Authority employees for their long service in public employment by providing them with retirement, disability and death benefits as additional elements of compensation.” The purpose was never envisioned as an investment vehicle for those who did not vest.

Purchase of Service Credit

- Section 1100 of the Plan currently allows Members that were previously employed with the City of San Diego (“City”) or the San Diego Unified Port District (“Port”) to purchase Authority Service Credit for time served with the City or Port when they were not making contributions to SDCERS.
- Clarifies Section 1100 to only allow a Purchase Service Credit (PSC) in those instances which are outlined in the Plan subsections for all employees hired after February 7, 2019.
- The amendment would have no impact on any other allowable PSC provisions as defined in Sections 1101 through 1106.

Purchase of Service Credit

The proposed Amendment eliminates an unintended PSC scenario that results from actions by other entities including, but not limited to, the introduction of defined contribution retirement plans introduced by the City of San Diego and new defined benefit plans introduced by the Port Authority.



Consistent with Plan Intent

The PSC article outlines reasons why a Member may be able to purchase allowable service credit at a later date. These include approved leaves such as the Family Medical Leave Act (FMLA), the Uniformed Services Employment & Re-employment Rights Act (USERRA), and long term disability. It was not the intent of the Plan to allow a new employee to purchase enough service credit to vest in the Authority Plan without every having provided service to the Authority.



Maintains Benefit for Current Members

The proposed change will only apply to new Members hired after February 7, 2019. Two current members have benefited from this provision. The Plan update will prevent the potential for future abuse of the option.

Recommended Action

- Staff recommends that the Executive Personnel and Compensation Committee forward this item to the Board for approval.