Ref: 22-7931

AGENDA

INVESTMENT AND FINANCE COMMITTEE MEETING
LEUCADIA WASTEWATER DISTRICT

Monday, April 25, 2022 – 11:00 A.M.
Via Teleconference

Pursuant to the State of California Executive Order N-29-20, and in the interest of public health, the District is temporarily taking actions to mitigate the COVID-19 pandemic by holding meetings by teleconference. The general public may not attend this meeting at the District's office due to social distancing requirements.

Members of the public attending via teleconference will be provided with an opportunity to comment on each agenda item prior to Committee discussion.

To join this meeting via Teleconference please dial: (669) 900-6833
Meeting ID: 840 2297 7005 Password: 902611

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1. **Call to Order**

2. **Roll Call**

3. **Public Comment**

4. **New Business**
   A. Financial Plan Update. (Page 2)

   B. Actuarial Valuations of LWD's Pension Plan. (Pages 3-9)

   C. Actuarial Valuation of LWD's Retiree Health Program. (Pages 10-11)

5. **Information Items**
   None.

6. **Directors' Comments**

7. **General Manager's Comments**

8. **Adjournment**

Ref. 22-7932

MEMORANDUM

DATE: April 21, 2022

TO: Investment and Finance Committee

FROM: Paul J. Bushee, General Manager

SUBJECT: **Financial Plan Tracking**

RECOMMENDED:

This item is presented for information purposes only.

DISCUSSION:

Tactical Goal: Financial / Financial Plan Update

During 2018, LWD updated the District's Financial Plan. The purpose of the Financial Plan is to ensure the financial stability of the District through a long-term financial planning process that projects future financial conditions and provides guidance in our decision-making process. At the January 2018 meeting, the Board approved a professional services agreement with Raftelis Financial Consultants to update the Financial Plan. The Financial Plan Update was completed June 6, 2018.

Each year, following the completion of our annual audit, staff updates the Financial Plan model using these current audited figures and adds the following year's budget figures as well. Staff has completed this year's internal update and will present an overview of how LWD is currently tracking with the 2018 Comprehensive Financial Plan for the committee's information.

reg:PJB

MEMORANDUM

Ref: 22-7935

DATE: April 21, 2022

TO: Investment & Finance Committee

FROM: Paul J. Bushee, General Manager

SUBJECT: **Actuarial Valuations of LWD's Pension Plan**

RECOMMENDATION:

This item is presented for information purposes only.

DISCUSSION:

LWD employees participate in a defined benefit pensions plan administered by the California Public Employees' Retirement System (CalPERS). An actuarial valuation of the LWD's pension is required every year to determine its pension liability. CalPERS publishes two actuarial reports in August every year for LWD: one report is for Classic members (employees hired before Jan. 1, 2013) and the other is for PEPRA members (employees hired after Jan. 1, 2013). LWD currently has 9 employees on the Classic plan and 9 PEPRA members.

This agenda item presents the results of this recent actuarial valuation. Based on this most recent report, the District's total Net Pension Liability is $4,523,924. The District's Plan Fiduciary Net Position (investments managed by CalPERS) of $14,667,076 were less than the District's Pension liability of $19,191,000.

Excerpts from the latest Classic and PEPRA actuarial valuation reports are attached. The first page highlights the District's required payments for fiscal year 2023; the second shows the additional discretionary payment options; and the last page shows the funded status as of June 30, 2020. You may recall that the Board approved a 10-year discretionary payment plan in fiscal year 2019. The full reports are available on CalPERS' website or from staff upon request. Staff will present an overview of the OPEB actuarial valuation.

reg:PB

Attachments (2)

Required Employer Contributions

	Fiscal Year
Required Employer Contributions	**2022-23**
Employer Normal Cost Rate	**15.25%**
Plus	
Required Payment on Amortization Bases[1]	**$385,670**
Paid either as	
1) Monthly Payment	**$32,139.17**
Or	
2) Annual Prepayment Option*	**$372,841**

The total minimum required employer contribution is the sum of the Plan's Employer Normal Cost Rate (expressed as a percentage of payroll and paid as payroll is reported) plus the Employer Unfunded Accrued Liability (UAL) Contribution Amount (billed monthly (1) or prepaid annually (2) in dollars).

** Only the UAL portion of the employer contribution can be prepaid* ***(which must be received in full no later than July 31).***

	Fiscal Year 2021-22	Fiscal Year 2022-23
Development of Normal Cost as a Percentage of Payroll		
Base Total Normal Cost for Formula	22.34%	22.34%
Surcharge for Class 1 Benefits[2]		
a) FAC 1	0.71%	0.72%
Phase out of Normal Cost Difference[3]	0.00%	0.00%
Plan's Total Normal Cost	23.05%	23.06%
Formula's Expected Employee Contribution Rate	7.80%	7.81%
Employer Normal Cost Rate	15.25%	15.25%

[1] The required payment on amortization bases does not take into account any additional discretionary payment made after April 30, 2021.

[2] Section 2 of this report contains a list of Class 1 benefits and corresponding surcharges for each benefit.

[3] The normal cost change is phased out over a five-year period in accordance with the CalPERS contribution allocation policy.

Additional Discretionary Employer Contributions

The minimum required employer contribution towards the Unfunded Accrued Liability (UAL) for this rate plan for the 2022-23 fiscal year is $385,670. CalPERS allows employers to make additional discretionary payments (ADPs) at any time and in any amount. These optional payments serve to reduce the UAL and future required contributions and can result in significant long-term savings. Employers can also use ADPs to stabilize annual contributions as a fixed dollar amount, percent of payroll or percent of revenue.

Provided below are select ADP options for consideration. Making such an ADP during fiscal year 2022-23 does not require an ADP be made in any future year, nor does it change the remaining amortization period of any portion of unfunded liability. For information on permanent changes to amortization periods, see the "Amortization Schedule and Alternatives" section of the report.

If you are considering making an ADP, please contact your actuary for additional information.

Minimum Required Employer Contribution for Fiscal Year 2022-23

Estimated Normal Cost	Minimum UAL Payment	ADP	Total UAL Contribution	Estimated Total Contribution
$251,257	$385,670	$0	$385,670	$636,927

Alternative Fiscal Year 2022-23 Employer Contributions for Greater UAL Reduction

Funding Target	Estimated Normal Cost	Minimum UAL Payment	ADP[1]	Total UAL Contribution	Estimated Total Contribution
20 years	$251,257	$385,670	$45,043	$430,713	$681,970
15 years	$251,257	$385,670	$115,321	$500,991	$752,248
10 years	$251,257	$385,670	$263,996	$649,666	$900,923
5 years	$251,257	$385,670	$727,199	$1,112,869	$1,364,126

[1] The ADP amounts are assumed to be made in the middle of the fiscal year. A payment made earlier or later in the fiscal year would have to be less or more than the amount shown to have the same effect on the UAL amortization.

Note that the calculations above are based on the projected Unfunded Accrued Liability as of June 30, 2022 as determined in the June 30, 2020 actuarial valuation. New unfunded liabilities can emerge in future years due to assumption or method changes, changes in plan provisions and actuarial experience different than assumed. Making an ADP illustrated above for the indicated number of years will not result in a plan that is exactly 100% funded in the indicated number of years. Valuation results will vary from one year to the next and can diverge significantly from projections over a period of several years.

Plan's Funded Status

	June 30, 2019	June 30, 2020
1. Present Value of Projected Benefits (PVB)	$20,298,985	$21,015,897
2. Entry Age Accrued Liability (AL)	18,371,543	19,105,554
3. Plan's Market Value of Assets (MVA)	13,591,886	14,118,897
4. Unfunded Accrued Liability (UAL) [(2) - (3)]	4,779,657	4,986,657
5. Funded Ratio [(3) / (2)]	74.0%	73.9%

This measure of funded status is an assessment of the need for future employer contributions based on the selected actuarial cost method used to fund the plan. The UAL is the present value of future employer contributions for service that has already been earned and is in addition to future normal cost contributions for active members. For a measure of funded status that is appropriate for assessing the sufficiency of plan assets to cover estimated termination liabilities, please see "Hypothetical Termination Liability" in the "Risk Analysis" section.

Projected Employer Contributions

The table below shows the required and projected employer contributions (before cost sharing) for the next six fiscal years. The projection assumes that all actuarial assumptions will be realized and that no further changes to assumptions, contributions, benefits, or funding will occur during the projection period. Actual contribution rates during this projection period could be significantly higher or lower than the projection shown below.

	Required Contribution	Projected Future Employer Contributions (Assumes 7.00% Return for Fiscal Year 2020-21)				
Fiscal Year	**2022-23**	**2023-24**	**2024-25**	**2025-26**	**2026-27**	**2027-28**
	Rate Plan 1317 Results					
Normal Cost %	15.25%	15.3%	15.3%	15.3%	15.3%	15.3%
UAL Payment	$385,670	$416,000	$449,000	$470,000	$490,000	$501,000

For some sources of UAL, the change in UAL is amortized using a 5-year ramp up. For more information, please see "Amortization of the Unfunded Actuarial Accrued Liability" under "Actuarial Methods" in Appendix A of the Section 2 Report. This method phases in the impact of the change in UAL over a 5-year period in order to reduce employer cost volatility from year to year. As a result of this methodology, dramatic changes in the required employer contributions in any one year are less likely. However, required contributions can change gradually and significantly over the next five years. In years when there is a large increase in UAL, the relatively small amortization payments during the ramp up period could result in a funded ratio that is projected to decrease initially while the contribution impact of the increase in the UAL is phased in.

For projected contributions under alternate investment return scenarios, please see the "Future Investment Return Scenarios" in the "Risk Analysis" section.

Our online pension plan modeling and projection tool, Pension Outlook, is available in the Employers section of the CalPERS website. Pension Outlook is a tool to help plan and budget pension costs into the future with results and charts that are easy to understand.

Required Employer Contributions

	Fiscal Year 2022-23
Required Employer Contributions	
Employer Normal Cost Rate	**7.47%**
Plus	
Required Payment on Amortization Bases[1]	**$2,492**
Paid either as	
1) Monthly Payment	**$207.67**
Or	
2) Annual Prepayment Option*	**$2,409**

The total minimum required employer contribution is the sum of the Plan's Employer Normal Cost Rate (expressed as a percentage of payroll and paid as payroll is reported) plus the Employer Unfunded Accrued Liability (UAL) Contribution Amount (billed monthly (1) or prepaid annually (2) in dollars).

** Only the UAL portion of the employer contribution can be prepaid* ***(which must be received in full no later than July 31)****.*

	Fiscal Year 2021-22	Fiscal Year 2022-23
Development of Normal Cost as a Percentage of Payroll		
Base Total Normal Cost for Formula	14.34%	14.22%
Surcharge for Class 1 Benefits[2]		
None	0.00%	0.00%
Phase out of Normal Cost Difference[3]	0.00%	0.00%
Plan's Total Normal Cost	14.34%	14.22%
Plan's Employee Contribution Rate[4]	6.75%	6.75%
Employer Normal Cost Rate	7.59%	7.47%

[1] The required payment on amortization bases does not take into account any additional discretionary payment made after April 30, 2021.

[2] Section 2 of this report contains a list of Class 1 benefits and corresponding surcharges for each benefit.

[3] The normal cost change is phased out over a five-year period in accordance with the CalPERS contribution allocation policy.

[4] For detail regarding the determination of the required PEPRA employee contribution rate see Section on PEPRA Member Contribution Rates.

Additional Discretionary Employer Contributions

The minimum required employer contribution towards the Unfunded Accrued Liability (UAL) for this rate plan for the 2022-23 fiscal year is $2,492. CalPERS allows employers to make additional discretionary payments (ADPs) at any time and in any amount. These optional payments serve to reduce the UAL and future required contributions and can result in significant long-term savings. Employers can also use ADPs to stabilize annual contributions as a fixed dollar amount, percent of payroll or percent of revenue.

Provided below are select ADP options for consideration. Making such an ADP during fiscal year 2022-23 does not require an ADP be made in any future year, nor does it change the remaining amortization period of any portion of unfunded liability. For information on permanent changes to amortization periods, see the "Amortization Schedule and Alternatives" section of the report.

If you are considering making an ADP, please contact your actuary for additional information.

Minimum Required Employer Contribution for Fiscal Year 2022-23

Estimated Normal Cost	Minimum UAL Payment	ADP	Total UAL Contribution	Estimated Total Contribution
$43,408	$2,492	$0	$2,492	$45,900

The minimum required contribution above is less than interest on the UAL. With no ADP the UAL is projected to increase over the following year. If the minimum UAL payment were split between interest and principal, the principal portion would be negative. This situation is referred to as "negative amortization."

Fiscal Year 2022-23 Employer Contribution Necessary to Avoid Negative Amortization

Estimated Normal Cost	Minimum UAL Payment	ADP[1]	Total UAL Contribution	Estimated Total Contribution
$43,408	$2,492	$35	$2,527	$45,935

Alternative Fiscal Year 2022-23 Employer Contributions for Greater UAL Reduction

Funding Target	Estimated Normal Cost	Minimum UAL Payment	ADP[1]	Total UAL Contribution	Estimated Total Contribution
20 years	$43,408	$2,492	$915	$3,407	$46,815
15 years	$43,408	$2,492	$1,471	$3,963	$47,371
10 years	$43,408	$2,492	$2,647	$5,139	$48,547
5 years	$43,408	$2,492	$6,311	$8,803	$52,211

[1] The ADP amounts are assumed to be made in the middle of the fiscal year. A payment made earlier or later in the fiscal year would have to be less or more than the amount shown to have the same effect on the UAL amortization.

Note that the calculations above are based on the projected Unfunded Accrued Liability as of June 30, 2022 as determined in the June 30, 2020 actuarial valuation. New unfunded liabilities can emerge in future years due to assumption or method changes, changes in plan provisions and actuarial experience different than assumed. Making an ADP illustrated above for the indicated number of years will not result in a plan that is exactly 100% funded in the indicated number of years. Valuation results will vary from one year to the next and can diverge significantly from projections over a period of several years.

Plan's Funded Status

	June 30, 2019	June 30, 2020
1. Present Value of Projected Benefits (PVB)	$852,851	$1,079,138
2. Entry Age Accrued Liability (AL)	285,806	377,975
3. Plan's Market Value of Assets (MVA)	261,176	340,792
4. Unfunded Accrued Liability (UAL) [(2) - (3)]	24,630	37,183
5. Funded Ratio [(3) / (2)]	91.4%	90.2%

This measure of funded status is an assessment of the need for future employer contributions based on the selected actuarial cost method used to fund the plan. The UAL is the present value of future employer contributions for service that has already been earned and is in addition to future normal cost contributions for active members. For a measure of funded status that is appropriate for assessing the sufficiency of plan assets to cover estimated termination liabilities, please see "Hypothetical Termination Liability" in the "Risk Analysis" section.

Projected Employer Contributions

The table below shows the required and projected employer contributions (before cost sharing) for the next six fiscal years. The projection assumes that all actuarial assumptions will be realized and that no further changes to assumptions, contributions, benefits, or funding will occur during the projection period. Actual contribution rates during this projection period could be significantly higher or lower than the projection shown below.

	Required Contribution	Projected Future Employer Contributions (Assumes 7.00% Return for Fiscal Year 2020-21)				
Fiscal Year	**2022-23**	**2023-24**	**2024-25**	**2025-26**	**2026-27**	**2027-28**
	Rate Plan 26885 Results					
Normal Cost %	7.47%	7.5%	7.5%	7.5%	7.5%	7.5%
UAL Payment	$2,492	$3,100	$3,700	$4,000	$4,200	$4,300

For some sources of UAL, the change in UAL is amortized using a 5-year ramp up. For more information, please see "Amortization of the Unfunded Actuarial Accrued Liability" under "Actuarial Methods" in Appendix A of the Section 2 Report. This method phases in the impact of the change in UAL over a 5-year period in order to reduce employer cost volatility from year to year. As a result of this methodology, dramatic changes in the required employer contributions in any one year are less likely. However, required contributions can change gradually and significantly over the next five years. In years when there is a large increase in UAL, the relatively small amortization payments during the ramp up period could result in a funded ratio that is projected to decrease initially while the contribution impact of the increase in the UAL is phased in.

For projected contributions under alternate investment return scenarios, please see the "Future Investment Return Scenarios" in the "Risk Analysis" section.

Our online pension plan modeling and projection tool, Pension Outlook, is available in the Employers section of the CalPERS website. Pension Outlook is a tool to help plan and budget pension costs into the future with results and charts that are easy to understand.

MEMORANDUM

Ref: 22-7924

DATE:	April 21, 2022
TO:	Investment & Finance Committee
FROM:	Paul J. Bushee, General Manager
SUBJECT:	**Actuarial Valuation of LWD's Retiree Health Program**

RECOMMENDATION:

This item is presented for information purposes only.

DISCUSSION:

Tactical Goal: Financial/OPEB Valuation and Implementation

LWD is a member of CalPERS Health, which requires employers contribute to health benefits of all qualified retirees if they elect to continue CalPERS health coverage. In February 2009, the Board approved the establishment of a trust through California Employees' Retiree Benefit Trust (CERBT) to fund these future costs.

An actuarial valuation of the District's retiree health program is required every two years to determine LWD's Other Postemployment Benefits (OPEB) liability. In August 2021, LWD staff contracted with Nyhart Company to perform the required actuarial valuation for June 30, 2022 (measured at June 30, 2021).

This agenda item, which is a fiscal year 2022 tactical goal, presents the results of this recent actuarial valuation. Based on this most recent report, the District's Net OPEB Liability is actually a Net OPEB Asset of $246,761. The District's Plan Fiduciary Net Position [investments managed by the California Employees' Retiree Benefit Trust (CERBT)] of $596,694 were greater than the District's OPEB liability of $349,933.

An executive summary of the Nyhart Company's actuarial valuation report is attached. The full report is available upon request. Staff will present an overview of the OPEB actuarial valuation.

reg:PB

Attachment (1)

Executive Summary

Leucadia Wastewater District GASB 74/75 Valuation for Fiscal Year Ending June 30, 2022

Summary of Results

Presented below is the summary of GASB 75 results for the fiscal year ending June 30, 2022 compared to the prior fiscal year as shown in the District's Notes to Financial Statement.

		FYE June 30, 2021		FYE June 30, 2022
Total OPEB Liability	$	394,815	$	349,933
Actuarial Value of Assets	$	(468,191)	$	(596,694)
Net OPEB Liability	$	(73,376)	$	(246,761)
Funded Ratio		118.6%		170.5%

		FY 2020/21		FY 2021/22
OPEB Expense	$	20,767	$	(4,554)
Annual Employer Contributions	$	18,210	$	25,748
Actuarially Determined Contribution	$	0	$	0

	FYE June 30, 2021	FYE June 30, 2022
Discount Rate	7.00%	6.50%
Expected Return on Assets	7.00%	6.50%

	FYE June 30, 2022
Total Active Participants	20
Total Retiree Participants	3

The active participants' number above may include active employees who currently have no health care coverage. Refer to Summary of Participants section for an accurate breakdown of active employees with and without coverage.