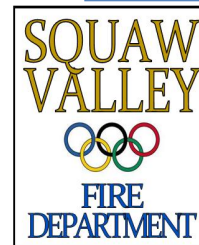




SQUAW VALLEY PUBLIC SERVICE DISTRICT



Budget Amendment – Unfunded Accrued Liability Additional Payment

DATE: May 26, 2020

TO: District Board Members

FROM: Mike Geary, General Manager and Danielle Grindle, Finance & Admin Manager

SUBJECT: Pay down California Public Employees Retirement System (CalPERS) Unfunded Accrued Pension Liability for Miscellaneous Group (Utility Department)

BACKGROUND: The District contracts with the California Public Employees Retirement System (CalPERS) to provide pension services for its employees as a part of their overall compensation and benefits.

Governmental Accounting Standards Board Statement #68 (GASB 68) requires a calculation of the District pension plans' "Unfunded Accrued Liability" (UAL) and for that estimate to be included in the District's annual audited financial statements. The UAL can be thought of as the difference between what the District needs to pay all eligible retirees minus the value of the pension fund the District holds with CalPERS. The value of what the District needs is based on actuarial analysis and includes estimates such as retirement age, mortality rates, terms of the specific plan, investment returns of the plan, etc. The actuarial analysis is updated annually to true-up estimated performance versus actual performance, however, there is a two-year lag for when this true-up is recognized on the financials and it is amortized over twenty years.

The total UAL posted to the FY 2018-19 audited financial statement was \$5.7M and is estimated to be \$5.3M for FY 2019-20. The UAL for the Miscellaneous Group (e.g., Operations and Administration Departments) is currently estimated to be \$2.4M and is 71% funded. The UAL for the Safety Group (e.g., Fire Department) is \$2.9M and is 74% funded. The goal of the District remains to get each group to a 90% funded level.

Each year, the District pays CalPERS a *minimum* required contribution towards the UAL. For example, in FY2019 the minimum required contribution was \$297,000 and in FY2020 it was \$339,000. However, as the UAL balance accrues

interest annually at a rate equal to CalPERS's *Discount Rate*, currently 7%, the Board approved additional payments on top of the required minimum. In FY2019 the District paid an additional \$935,000 and in FY2020 an additional \$620,000. Based on budgeting tools provided by CalPERS, the benefit of paying early would amount to a savings of \$5M in interest payments.

The District's current highest earning investment is a 5-year Certificate of Deposit (CD) that earns 3.1% annually. Most of the District's investments are in Placer County investment accounts currently earning 1.64%.

DISCUSSION: As mentioned earlier, paying early results in substantial savings in interest payments. Since the onset of the Novel Coronavirus Pandemic, the District is carefully scrutinizing potential financial impacts. On April 8th, 2020 CalPERS held a webinar regarding the impacts of COVID-19 and the status of the fund. As of April, the return for CalPERS was negative four percent (-4%). Note that all valuations which determine an employer's UAL, as well as the employer and employee payroll contribution rates, are set as of June 30th every year. Unfortunately, CalPERS does not have a tool for Districts in a pooled fund to run scenarios of what our UAL would be under different investment return rates. The main take away is that a negative return rate will impact the District's UAL, and the higher the UAL the more we will have to pay down the road.

The focus of this discussion is for the Miscellaneous group as funds are available now that can be directed towards PERS. The UAL for the Safety Group is scheduled to be paid down over a five-year period which will require borrowing from the Water and Sewer Fixed Asset Replacement Funds (FARFs) as discussed in the budget. If funds become available sooner, the District will look to make additional payments for the Safety plan as well.

Based on the most recent valuation as of June 30, 2018 for the Miscellaneous Group, the District owes \$4.2M in payments over 20 years (of which \$1.8M is interest). If the District can pay more now and reduce the UAL before the June 30th valuation date, our required payments down the road can be significantly reduced. According to the valuation, the District needs to pay approximately \$1.2M to be 90% funded. The budget shows this can be done by paying \$600,000 in FY2020 and another \$600,000 in FY2021 (this is in addition to \$400,000 paid in July 2019). The first payment in FY 2020 would come from the Sewer FARF and the second payment in FY 2021 from the Water FARF.

As modeled, this will get us to a 90% funded level. If all things remained constant and we never paid additional payments beside the required minimum, the UAL would be paid off over 10 years and result in savings of \$1.5M in interest payments.

Based on the data available, the pay downs are scheduled as follows (ADP = Additional Discretionary Payment):

| | | | |
|----------------|--------------|----------------------|---------------------|
| Total Payments | \$ 4,241,474 | Total Payments | \$ 2,782,589 |
| Interest Paid | \$ 1,802,431 | Interest Paid | \$ 343,545 |
| | | Total Savings | \$ 1,458,885 |

| | | Projected 2019 Schedule | | Projected 2019 Schedule w/ ADP | |
|---------|--------------|-------------------------|------------|--------------------------------|------------|
| Year | Total ADP | Balance | Payment | Balance | Payment |
| 2019-20 | \$ 1,000,000 | \$ 2,434,904 | \$ 160,772 | \$ 2,434,904 | \$ 160,772 |
| 2020-21 | \$ 600,000 | \$ 2,439,043 | \$ 179,335 | \$ 1,429,925 | \$ 126,554 |
| 2021-22 | \$ - | \$ 2,424,270 | \$ 198,923 | \$ 778,466 | \$ 90,091 |
| 2022-23 | \$ - | \$ 2,388,202 | \$ 213,640 | \$ 739,768 | \$ 101,815 |
| 2023-24 | \$ - | \$ 2,334,385 | \$ 225,651 | \$ 686,234 | \$ 110,751 |
| 2024-25 | \$ - | \$ 2,264,377 | \$ 239,760 | \$ 619,708 | \$ 121,700 |
| 2025-26 | \$ - | \$ 2,174,873 | \$ 246,821 | \$ 537,200 | \$ 125,515 |
| 2026-27 | \$ - | \$ 2,071,801 | \$ 253,536 | \$ 444,970 | \$ 128,894 |
| 2027-28 | \$ - | \$ 1,954,567 | \$ 260,436 | \$ 342,789 | \$ 132,366 |
| 2028-29 | \$ - | \$ 1,821,989 | \$ 267,526 | \$ 229,863 | \$ 135,934 |
| 2029-30 | \$ - | \$ 1,672,797 | \$ 274,811 | \$ 105,342 | \$ 108,967 |
| 2030-31 | \$ - | \$ 1,505,626 | \$ 282,296 | | |
| 2031-32 | \$ - | \$ 1,319,011 | \$ 289,987 | | |
| 2032-33 | \$ - | \$ 1,111,377 | \$ 285,617 | | |
| 2033-34 | \$ - | \$ 893,728 | \$ 280,790 | | |
| 2034-35 | \$ - | \$ 665,837 | \$ 270,786 | | |
| 2035-36 | \$ - | \$ 432,342 | \$ 256,258 | | |
| 2036-37 | \$ - | \$ 197,531 | \$ 92,589 | | |
| 2037-38 | \$ - | \$ 115,583 | \$ 74,570 | | |
| 2038-39 | \$ - | \$ 46,538 | \$ 48,139 | | |

- ALTERNATIVES:**
1. Authorize staff to pay-down the Miscellaneous Group's CalPERS unfunded accrued pension liability (UAL) in the amount of six hundred thousand dollars (\$600,000) and amend the FY 2019-20 Budget accordingly.
 2. Do not authorize staff to pay-down the District's UAL for the Miscellaneous Group.

FISCAL/RESOURCE IMPACTS: The source of funds is the Sewer FARF, which is projected to have a balance of \$1.8M at the end of FY 2019-20, after the additional \$600,000 payment. The minimum amount required to be held in financial reserves is sixty-days of operating expenses, or approximately \$200,000 so the additional payment complies with the District's Financial Reserves Policy.

The FY20-21 budget proposes the Water FARF to make an equal contribution of \$600,000. This payment will be made once funding is secured for budgeted capital projects. Based on the most recent valuations from 2018, this should get us to a 90% funded level of the plan.

RECOMMENDATION: Authorize staff to pay-down the District's Miscellaneous Group's CalPERS unfunded accrued pension liability (UAL) with funds from the Sewer FARF.

ATTACHMENTS: None.

DATE PREPARED: May 12, 2020.