



OLYMPIC VALLEY PUBLIC SERVICE DISTRICT



PENSION 115 TRUST FUND ANNUAL REPORT AND POLICY REVIEW

DATE: October 31, 2023

TO: District Board Members

FROM: Danielle Mueller, Finance & Administration Manager and Mike Geary, General Manager

SUBJECT: Pension 115 Trust Fund Annual Report and Policy Review

BACKGROUND: GASB 68:

GASB 68 refers to Statement No. 68, "Accounting and Financial Reporting for Pensions" issued by the Governmental Accounting Standards Board (GASB). GASB 68 went into effect for financial reporting periods beginning after June 15, 2014. The purpose of GASB 68 is to improve transparency and provide more accurate information about the financial obligations related to pension benefits provided by state and local governments. By requiring the recognition of the net pension liability on financial statements, GASB 68 aims to enhance the understanding of the long-term financial health and sustainability of these governments.

GASB 68 requires employers to report their share of the net pension liability in their financial statements. The net pension liability represents the difference between the total pension liability and the assets set aside in a pension plan to cover those liabilities. GASB 68 also requires information about the funding status of the plans.

OVPSD's Pension Liability:

As of June 2023, the District's current *total* Unfunded Accrued Pension Liability (UAL) is – \$4,615,829:

- Fire: \$3,252,575 (funding status = 78.7%)
- Utility & Admin: \$1,363,254 (funding status = 85.8%)

The District paid CalPERS \$340,395 in fiscal year 2022-23 towards UALs and \$213,979 in 2023-24. The annual valuation which outlays payments for fiscal year 2024-25 estimates payments to increase to \$326,851. This is a result of the

anomalously low investment returns in 2022, which followed the anomalously high investment return in 2021.

115 Trust (CEPPT):

In June 2022, the District opened a Pension 115 Trust with CalPERS, called a California Employers' Pension Prefunding Trust (CEPPT), and contributed \$250,000 for the Utility / Admin Department and \$100 for the Fire Department. An additional \$200,000 was contributed to the Fire Department trust in June 2023.

The CEPPT is a special irrevocable trust fund that allows State and local public agencies in California that provide a defined benefit pension plan to their employees to prefund their pension contributions. A defined benefit plan is prefunded when it is a trust fund for the purpose of investing employer payments toward future required pension contributions. The CEPPT program receives pre-fund contributions from the District and invests those assets into public market securities. The contributions and the investment returns are held in a trust fund dedicated exclusively to paying pension benefits owed by the District to its employees.

Pension contributions eligible for reimbursement from the CEPPT include normal cost contributions, required minimum unfunded accrued liability (UAL) payments, and additional discretionary payments (ADPs).

The Board of Directors adopted Resolution 2022-04, approving the Pension 115 Trust Funding Policy, in February 2022.

DISCUSSION: OVPSD staff compiled the attached Funding Policy which indicates what, if any, contribution or reimbursement should be made to, or from, the Trust. The Policy indicates this review is required annually and will be presented to the Board. The Policy recommends that payments or reimbursements only occur after the balance of the funds is at least \$250,000.

In fiscal year 2023, the Fire Department Trust earned \$891.94, and the Utility Department \$11,490.24 after administrative expenses. Since neither of the two Trust accounts hold more than \$250,000 (\$241,754 for the Utility Department and \$200,994 for the Fire Department), no reimbursement is warranted.

Holding funds in the Trust will allow the corpus to grow and interest earned will be used to fund future employer obligations. At the time of this report, the fund is currently earning 3.99% annually. This is outpacing Placer County funds which are currently earning 3.16% annually.

ALTERNATIVES: 1. No action; keep the CEPPT policy as is.
2. Modify the policy to the CEPPT.

FISCAL/RESOURCE IMPACTS: A \$200,000 investment in the CEPPT will currently earn approximately \$7,980 in investment earnings over a year. Investment management fees are considered low with an annual fee of 0.25 percent of assets. For example, with \$100,000, the annual cost would be \$250.

RECOMMENDATION: No changes are proposed; therefore, keep the 115 Trust Funding Policy as is.

ATTACHMENTS: Pension 115 Trust Funding Policy (2 pages)

DATE PREPARED: October 23, 2023

Policy 2040 Pension 115 Trust

The Pension 115 Trust Funding Policy of the District is reviewed by staff on a continual basis and submitted annually (with suggested changes, if appropriate) to the Board of Directors for approval.

PURPOSE

The purpose of the Trust is to achieve long-term growth of Trust assets by maximizing long-term rate of return on investments and minimizing risk of loss to fulfill the District's stated objectives for the Trust to fund the District's Pension Obligations.

The purpose of this Policy Statement is to establish clear guidelines on how the corpus of the Trust and the returns achieved from the investment of the Trust assets will be applied.

The District has separately established an investment policy that meets its current investment goals. Refer to the most current Investment Policy for more detailed information regarding investment standards.

SCOPE

This Policy Statement applies exclusively to the Trust.

POLICY

This policy is applicable for all Trust funds in excess of \$250,000. It is the District's intent and determination that the corpus of the trust shall remain intact unless the UAL has a funded ratio of less than 90% after any additional payments are made from the operating budget, or otherwise determined by the District's Board of Directors. Such intent is for the purpose of ensuring that the District has the necessary funds to meet its pension obligations irrespective of the economic conditions at any given time.

Annual earnings achieved from the investment of the Trust's assets, and the corpus of the Trust if necessary, determined as of June 30 of each fiscal year, shall be allocated in accordance with the following guidelines as determined by the District:

- 1. Make ADP to Pay Down UAL to 90% Funded Level**

Funds from the Trust will be paid directly to CalPERS as an Additional Discretionary Payment (ADP) of the District's Unfunded Accrued Liability (UAL) to achieve a 90% funded ratio of the District's CalPERS pension plan.

Only the annual earnings achieved from the investment of the Trust's assets, determined as of June 30 of each fiscal year, shall be allocated in accordance with the following guidelines as determined by the District:

- 1. Pay Annual Minimum Required Employer Contribution to UAL**

Any remaining funds from the Trust's annual earnings will be paid directly to CalPERS as part, or all, of the District's Annual Minimum Required Employer Contribution to its UAL.

- 2. Pay Biweekly Employer Contributions of the Normal Cost**

Any remaining funds from the Trust's annual earnings will be used to reimburse part, or all, of the District's Employer Contributions to the Pension Plan's Normal Cost from the prior year.

3. Reinvest into to the Trust's Corpus

Any remaining funds from the Trust's annual earnings will be added to the Trust's corpus.

For the purpose of applying this policy, the most recently available actuarial study, or other more recent District specific communication from CalPERS, shall be the basis for determining the status of the District's funded ratio on its pension plan and the amount of District's Minimum Required Employer Contribution to the UAL.

Additional Discretionary Payments (ADPs) may be made from time to time with either budgeted or one-time resources, with the objective of increasing the plan's funded status. The actual dollar amount of available one-time funds will be presented to the Board of Directors with a recommendation as to how much shall be contributed to either CalPERS or the Pension 115 Trust. This recommendation will be based on the dollars available, other competing priorities, and input from the Board of Directors.

TRANSPARENCY AND REPORTING

Funding and funded status of the District's pension plan should be transparent to interested parties, including plan participants, the Board of Directors, and the District's customers. To achieve this transparency, the following information shall be available:

1. Copies of the annual actuarial valuations for the District's pension plan shall be made available to the Board of Directors.
2. The District's independently audited Annual Comprehensive Financial Report shall be published on its website. This report includes information on the District's annual contributions to CalPERS and the Pension funding and the funded status of the pension plan.
3. The District's annual operating budget shall include the District's required contributions to CalPERS, and any additional budgeted contributions available to be made toward the Pension 115 Trust.
4. The District shall periodically, but no less than annually, report to the Board of Directors on the long-term UAL trend showing progress toward a fully-funded status.

(Adopted 02-22-2022, revised 05-30-2023)