



OLYMPIC VALLEY PUBLIC SERVICE DISTRICT



EXHIBIT F-7
6 Pages

OPEB 115 TRUST FUND ANNUAL REPORT AND POLICY REVIEW

DATE: October 31, 2023

TO: District Board Members

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

SUBJECT: OPEB 115 Trust Fund Annual Report and Policy Review

BACKGROUND: GASB 75:

GASB 75 refers to Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions" issued by the Governmental Accounting Standards Board (GASB). GASB 75 went into effect for fiscal years beginning after June 15, 2017. The goal of GASB 75 is to improve transparency and accountability in the financial reporting of Other Post Employment Benefit (OPEB) obligations, enabling stakeholders to assess the long-term fiscal health of government entities. The liability for OPEB represents the present value of the projected future benefit payments to employees.

GASB 75 requires governments to measure and report their OPEB liabilities and expenses using an actuarial method. OPEB typically includes healthcare benefits, life insurance, and other benefits provided to government employees after they retire. The District contracts with Total Compensation Systems (TCS) for \$2,970 per year to perform the actuarial evaluation necessary to estimate the District's OPEB liability required in the annual financial statements and audit.

OVPD's OPEB Liability:

The District's *only* Other Postemployment Benefit obligation is not a negotiated benefit; it is a condition of contracting with the CalPERS Health Program for employee health care benefits. The *Public Employees' Medical & Hospital Care Act* (PEMHCA) governs the CalPERS Health Program which requires employers to provide contributions toward the health care coverage of their annuitants (retirees) and their eligible dependents. These contributions are made towards the cost of health insurance premiums or the provision of health care benefits on

behalf of retirees so long as the annuitant continues their health care coverage with CalPERS. The cost and value of health insurance programs, provided to employees as an employment benefit, are evaluated periodically by staff. Contracting with CalPERS Health Program has consistently been verified as the best value, despite the condition to pay the annual minimum employer contributions to retiree health premiums, or PEMCHA contributions.

In 2023, the PEMCHA contribution is \$151 per month per retiree. This amount is set and required by CalPERS Health Program and increases annually for inflation.

As of June 30, 2023 the District's current *total* unfunded OPEB liability is \$485,308:

- Fire: \$228,095
- Utility & Admin: \$257,213

115 Trust (CERBT):

In June 2022, the District opened an OPEB 115 Trust with CalPERS, called a California Employers' Retiree Benefit Trust (CERBT), and contributed \$25,000 for the Utility / Admin Department and \$25,000 for the Fire Department.

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

The benefit of investing in a 115 Trust is that funds held in the District's CERBT *reduce* the OPEB liability at a ratio greater than 1:1 (e.g., dollar-for-dollar). This means that if we invest one dollar in the 115 Trust, our OPEB liability is reduced by more than a dollar. Investing that same dollar in another investment account would *offset* the OPEB liability equal to a 1:1 ratio. Illustratively, the total OPEB liability in:

- 2021 was \$986,478, with no 115 Trust investments.
- 2023 was \$485,308, with 115 Trust corpus balance of \$50,000.

The Board of Directors adopted Resolution 2022-06, approving the OPEB 115 Trust Funding Policy, in February 2022.

DISCUSSION: The OPEB 115 Funding Policy is attached and indicates what, if any, contribution, or reimbursement should be made to, or from, the trust. The policy requires an

annual review by the Board.

This year, the applicable elements of the Policy reads:

- *If the annual earnings achieved from the investment of the Trust's assets are less than the annual OPEB payment (e.g., annual employer contributions to retiree health premiums), then 100% of the Trust's annual earnings will be added to the Trust's corpus.*

and

- *The District will annually contribute \$50,000 to the Trust.*

In fiscal year 2023, the Fire Department's Trust earned \$1,764 and the Utility / Admin Department's earned \$1,764, after administrative expenses.

Since the sum of \$3,528 in earnings did not exceed the \$20,142 paid to CalPERS for retirees' health care expenses in fiscal year 2023, reimbursement from the Trust is not triggered, and instead will be added to the Trust's corpus.

The policy stipulates the Board consider approval of an annual contribution of \$50,000 to the CERBT (e.g., \$25,000 for the Utility / Admin Department and \$25,000 for the Fire Department). At the time of this report, the fund is currently earning 4.78% annually.

This OPEB 115 Trust Funding Policy can be changed at the direction of the Board of Directors. However, no changes are recommended at this time.

- ALTERNATIVES:**
1. Approve the Other Post-Employment Benefit (OPEB) 115 Trust Funding Policy and a \$50,000 contribution to the CERBT.
 2. Modify the Policy or the \$50,000 contribution to the CERBT.
 3. Do not approve the Policy or the \$50,000 contribution to the CERBT.

FISCAL/RESOURCE IMPACTS: A \$50,000 dollar investment in the CERBT is currently earning approximately \$2,390 in investment earnings over the course of a year as opposed to an estimated \$1,580 in interest earnings if the District invested the same funds in our investment account with Placer County. Investment management fees are considered low with an annual fee of 0.10% of assets. For example, a \$100,000 balance would cost \$100 annually.

The District has approximately \$6.1 million dollars in the Fixed Asset Replacement Funds (FARF) for Water and Sewer. There is approximately \$1.7 million in the Fire FARF. These funds are unrestricted and available for use,

primarily for capital replacements. As such, staff recommends the policy guidelines to contribute to the CERBT; \$25,000 for the Utility Department and \$25,000 for the Fire Department.

RECOMMENDATION: Approve the 115 Trust Funding Policy as well as a \$50,000 contribution to the CERBT.

ATTACHMENTS: Other Post-Employment Benefit (OPEB) 115 Trust Funding Policy (2 pages).

DATE PREPARED: October 19, 2023

Policy 2050 OPEB 115 Trust

The Other Post-Employment Benefit (OPEB) 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 OPEB obligations.

The purpose of this Policy Statement is to establish clear guidelines on how 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

It is the District's intent and determination that the corpus of the trust shall remain intact unless 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 OPEB obligations irrespective of the economic conditions at any given time.

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. If the annual earnings achieved from the investment of the Trust's assets are less than the annual OPEB payment (e.g., annual employer contributions to retiree health premiums), then 100% of the Trust's annual earnings will be added to the Trust's corpus.
2. If the annual earnings achieved from the investment of the Trust's assets are more than the annual OPEB payment, then the annual earnings will be used to reimburse the District for its annual employer contributions to retiree health premiums.

The District will annually contribute \$50,000 to the Trust. To continue to achieve annual interest earnings in an amount equal to, or greater than, the District's annual OPEB payment, the District will continue to annually contribute \$50,000 to the Trust for five years after the first year annual earnings achieved from the investment of the Trust's assets equal, or exceed, the then-current annual OPEB payment.

Additional Discretionary Payments (ADPs) may be made from time to time with either budgeted or one-time resources, with the objective of increasing the annual earnings achieved from the investment of the Trust's assets. 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

the OPEB 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 OPEB 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 OPEB 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 retiree health premiums and OPEB 115 Trust funding.
3. The District's annual operating budget shall include the District's required contributions to retiree health plans and any budgeted contributions to the OPEB 115 Trust.
4. The District shall periodically, but no less than annually, report to the Board of Directors on the OPEB 115 Trust assets, annual earnings achieved from the investment of the Trust's assets, and OPEB payments (e.g., annual employer contributions to retiree health premiums).

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