# SWEETWATER SPRINGS WATER DISTRICT

**TO:** Board of Directors **AGENDA NO. V-C**

**FROM:** Ed Fortner, General Manager

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**Meeting Date:** **October 1, 2020**

**Subject:** **Discussion/Action re CalPERS Valuation Report and District Unfunded Liability**

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**RECOMMENDED ACTION:**

Provide direction to staff regarding the FY 2020-21 extra payment on District's Unfunded Liability (UL) on the CalPERS pension plan.

**FISCAL IMPACT:**

The FY 2020-21 budget provides for a total of $534,854 for unfunded pension liability expense. Of this, $34,854 is a mandatory payment, and $500,000 is an extra payment. This does not include ongoing pension expenses, budgeted at $87,000 this fiscal year.

**DISCUSSION:**

The District receives an annual retirement valuation from PERS in late August. The valuation report is a thick document with much information and the full report in all its detail is, of course, available for your review. This discussion, however, focusses on the portion of the report that discusses the District's unfunded liability, or "UL".

For the past few years, the shortfall between the District's assets with PERS and the estimated retirement costs for current and future District retirees – referred to as "unfunded liability" or "UL" -- has been growing at an alarming rate as shown below. What's more, PERS charges 7% interest on UL.

| End of FY<br>*Attached is a more detailed UL table. Figures in the most recent valuation report are shaded lemon yellow* | UL Balance |
|---|---|
| FY 2013-14 | $500,704 |
| FY 2014-15 | $670,689 |
| FY 2015-16 | $965,973 |
| FY 2016-17 | $894,462 |
| FY 2017-18 | $993,379 |
| FY 2018-19 | $986,313* |
| FY 2019-20 | $481,922** |

* 7% interest X $986,313 = $69,042/year

**7% interest X 481,922 = $33,735/year (Lower UL balance reflects $500,000 extra payment made in FY 2019-20)

Last year we discussed reasons for the UL increase and stated that staff would direct you to last year's staff report (September, 2019 meeting) for additional background.

Although we had been making smaller extra UL payments to PERS beyond the required annual payment, the high interest rate on the UL balance was and is concerning. Therefore**,** last year staff presented a plan to pay down the entire balance in two years. Specifically the plan called for making an extra payment on our UL of $500,000 in FY 2019-20 – which we did – and a second extra payment of $500,000 in FY 2020-21, to be separately approved by the Board. These extra payments are in addition to the mandatory payments on UL set by PERS, and are being financed with a loan from our own Policy Reserves. The loan is to be paid back over next seven (7) years at $135,000/year beginning this year (FY 2020-21). The FY 2020-21 budget provides for both the $500,000 extra payment, the $135,000 installment owed to our Policy Reserves, and a $33,694 mandatory UL payment.

**The impact of last year's $500,000 extra payment is included in this year's valuation report. Our preliminary UL balance at the end of FY 2019-20 is $481,922, down from $986,313 at the end of FY 2018-19. Our mandatory UL payment, which was $54,360 in FY 2019-20, also went down – to $33,694 -- in FY 2020-21.**

It should be noted that the FY 2019-20 preliminary UL figure does not include increases/decreases to UL due to FY 2019-20 investment returns. PERS assumes they will achieve 7% investment returns each year. Since the valuation report was finalized, we now know that PERS investment returns for FY 2019-20 came in at a more modest 4.7%. Staff estimates the failure to achieve a 7% return will add about $100,000 to our UL balance. Attached is the most recent "Facts at a Glance" report with investment returns for the last decade.

**RECOMMENDED ACTION:** Stay the course and approve a second $500,000 extra payment on our PERS UL in FY 2020-21, as has been budgeted.

## A Recent History of Sweetwater's Unfunded Liability - 2% @ 55 Plan

**Source: PERS Annual Valuation Report**

| | U/L at Start of FY | Minimum Required Payment | Extra Payment | Total UL Payments | Net toward principal | Unpaid interest (added to UL) | Initial FYE UL (Balance - Principal Pymts + Unpd Interest) | Plus/Minus Impact on UL of Investment Returns | Plus/Minus Impact on UL of Assumption Changes | U/L Carried to Next FY Year | Notes: |
|---|---|---|---|---|---|---|---|---|---|---|---|
| FY 2013-14 | **$575,549.00** | $16,715.00 | $0.00 | $16,715.00 | $0.00 | $25,835.00 | $601,384.00 | -$252,743.00 | $152,063.00 | **$500,704.00** | Assumed age of death increased |
| FY 2014-15 | **$500,704.00** | $22,170.00 | $0.00 | $22,170.00 | $0.00 | $14,566.00 | $515,270.00 | $155,419.00 | $0.00 | **$670,689.00** | |
| FY 2015-16 | **$670,689.00** | $19,980.00 | $0.00 | $19,980.00 | $0.00 | $29,587.00 | $700,276.00 | $201,792.00 | $63,905.00 | **$965,973.00** | Assumed investment return lowered from 7.5% to 7.375% |
| FY 2016-17 | **$965,973.00** | $28,871.00 | $60,000.00 | $88,871.00 | $15,792.00 | $0.00 | $950,181.00 | -$129,223.00 | $73,504.00 | **$894,462.00** | Assumed investment return lowered from 7.375% to 7.25% |
| FY 2017-18 | **$894,462.00** | $36,120.00 | $75,883.00 | $112,003.00 | $39,578.00 | $0.00 | $854,884.00 | -$20,698.00 | $159,193.00 | **$993,379.00** | Assumed investmenet return lowered from 7.25% to 7%. : $123,964<br>Impact of PERS methodology change: $35,229. |
| FY 2018-19 | **$993,379.00** | $46,731.00 | $78,720.00 | $125,451.00 | $47,745.00 | $0.00 | $945,634.00 | $40,679.00 | $0.00 | **$986,313.00** | |
| FY 2019-20 | **$986,313.00** | $54,360.00 | $500,000.00 | $554,360.00 | $504,391.00 | $0.00 | $481,922.00 | | | | |
| FY 2020-21 | $481,922.00 | $33,694.00 | | $33,694.00 | | $0.00 | | | | | |
| TOTALS: | | | | | | **$69,988.00** | | **-$4,774.00** | **$448,665.00** | | |

Joined 2% @ 55 in May 2011

# Investment & Pension Funding

Facts at a Glance for Fiscal Year 2018–19

## Investments (PERF*)

### Total Fund Market Value & Total Net Investment Return** 10-year Review

*(for FY end 6/30)*

| | (in billions) | (%) |
|---|---|---|
| 2019 | $372.6 | 6.7% |
| 2018 | $354.0 | 8.6% |
| 2017 | $326.4 | 11.2% |
| 2016 | $302.0 | 0.6% |
| 2015 | $301.9 | 2.4% |
| 2014 | $300.3 | 18.4% |
| 2013 | $257.9 | 13.2% |
| 2012 | $233.4 | 0.1% |
| 2011 | $237.5 | 21.7% |
| 2010 | $200.0 | 13.3% |

* *Public Employees' Retirement Fund (PERF)*
** *Time-weighted rate of return net of investment expense*

### Total Net Investment Return* *(for FY end 6/30)*

| | |
|---|---|
| FY to date | 6.7% |
| 3 years | 8.8% |
| 5 years | 5.8% |
| 10 years | 9.1% |
| 20 years | 5.8% |
| **30 years** | **8.1%** |

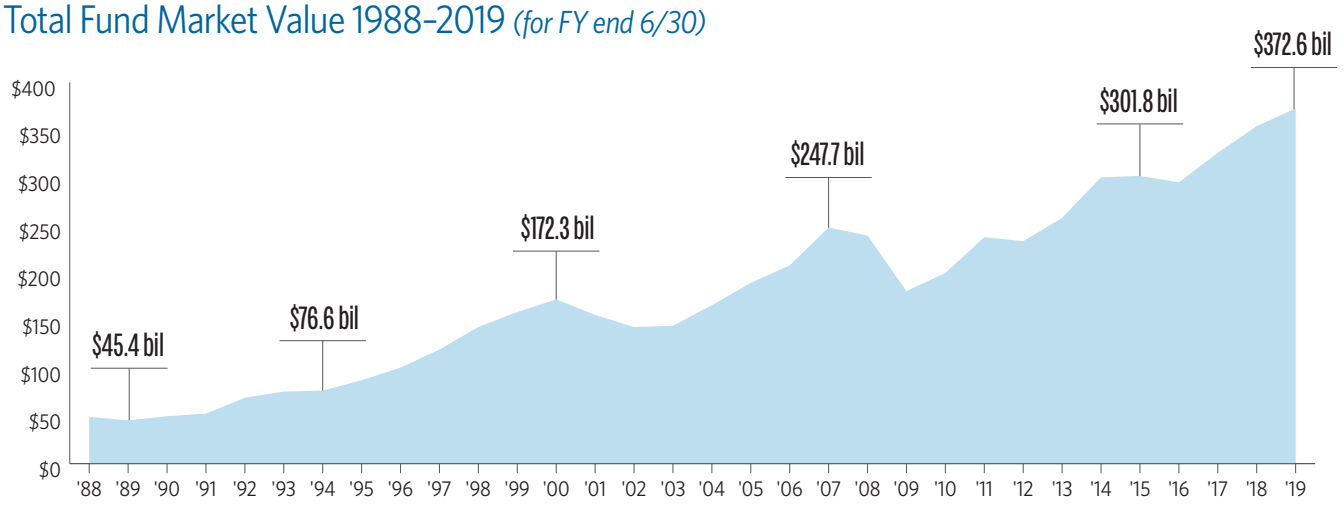
* *Net time-weighted rate of returns*

### Discount Rate Changes

| | | | |
|---|---|---|---|
| 2017–18* (State) | 7.5% | → | 7.375% |
| 2018–19* (School/PA) | 7.5% | → | 7.375% |
| 2018–19* (State) | 7.375% | → | 7.25% |
| 2019–20* (School/PA) | 7.375% | → | 7.25% |
| 2019–20* (State) | 7.25% | → | 7.0% |
| 2020–21* (School/PA) | 7.25% | → | 7.0% |
| 2012 | 7.75% | → | 7.5% |
| 2004 | 8.25% | → | 7.75% |

* *FY required contribution*

### Total Fund Market Value 1988–2019 *(for FY end 6/30)*

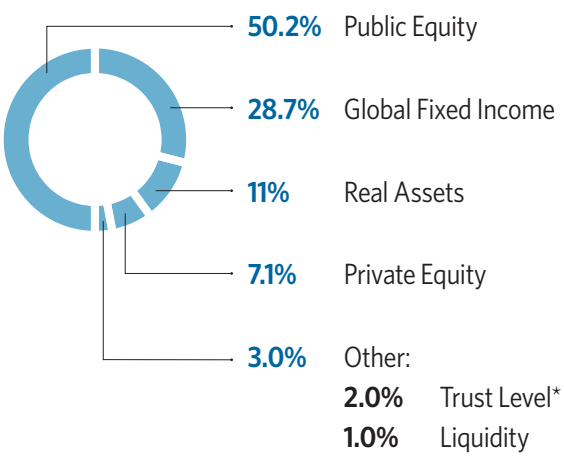



CalPERS

*Every effort has been made to verify the accuracy of the information, which is intended for general use only.*

# Investments (cont'd)

## Current Asset Allocation




* *The Trust Level includes Multi Asset Class, Completion Overlay, Risk Mitigation, Absolute Return Strategies, Plan Level Transition and other Total Fund level portfolios.*

## Asset Allocation

| | Current Allocation | Strategic Asset Allocation |
|---|---|---|
| Public Equity | 50.2% | 50.0% |
| Global Fixed Income | 28.7% | 28.0% |
| Real Assets | 11.0% | 13.0% |
| Private Equity | 7.1% | 8.0% |
| Trust Level* | 2.0% | — |
| Liquidity | 1.0% | 1.0% |

* *The Trust Level includes Multi Asset Class, Completion Overlay, Risk Mitigation, Absolute Return Strategies, Plan Level Transition and other Total Fund level portfolios.*

## California Investments

**$33.9 billion**

California investments as percentage of the total fund

| | Fair Value (in millions) |
|---|---|
| **Total California Investments** | **$33,953** |
| Public Equity* | $16,321 |
| Global Fixed Income** | $5,780 |
| Real Assets*** | $10,950 |
| Private Equity*** | $902 |

* *Includes listed public equities corporate bonds.*

** *Fixed income also includes a portion of MBS&ABS, which have significants geographical exposure to CA & MHLP.*

*** *As of March 31, 2019*

## Sustainable Investing

CalPERS actively engages with the companies we own to **protect the long-term sustainability of our investment**. From issues regarding environmental responsibility to safe labor practices, we keep an open dialog with company leaders and vote our proxies.

**11,000+** Number of companies where CalPERS cast proxy votes in 2019 worldwide (calendar year)

# Pension Funding

## Funded Status of Retirement Plans by Member Category

| | State | School | PA | Total |
|---|---|---|---|---|
| **2017–18** | **69.5%** * | **68.6%*** | **70.4%*** | **69.8%*** |
| 2016–17 | 65.8% * | 68.7%* | 69.5%* | 68.0%* |
| 2015–16 | 62.3% | 67.8% | 66.2% | 68.3% |
| 2014–15 | 69.4% | 77.5% | 74.5% | 73.1% |
| 2013–14 | 72.1% | 82.0% | 77.9% | 76.3% |
| 2012–13 | 66.1% | 76.2% | 70.5% | 69.8% |
| 2011–12 | 66.1% | 75.4% | 70.1% | 69.6% |

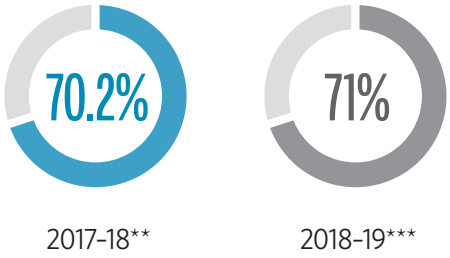
* *Based on a 7.0% discount rate and includes the terminated agency pool and 1959 survivor benefit plan.*

## Contributions, 10-Year Review *(in thousands)*

| | Employer Contributions | Member Contributions | Investment & Other Income |
|---|---|---|---|
| **2018–19** | **$15,612,678** | **$4,664,618** | **$22,969,664** |
| 2017–18 | $19,917,796* | $4,415,129 | $27,448,098 |
| 2016–17 | $12,329,837 | $4,214,578 | $32,977,020 |
| 2015–16 | 10,892,489 | 4,015,754 | 1,548,442 |
| 2014–15 | 9,997,705 | 3,826,072 | 6,702,997 |
| 2013–14 | 8,777,602 | 3,775,038 | 45,598,044 |
| 2012–13 | 8,123,833 | 3,897,078 | 30,291,983 |
| 2011–12 | 7,772,913 | 3,598,437 | (196,014) |
| 2010–11 | 7,465,397 | 3,600,089 | 43,907,436 |
| 2009–10 | 6,955,049 | 3,378,867 | 25,577,529 |

* *Amount includes an additional $6 billion dollar contribution by the state.*

## Funded Status Total PERF*

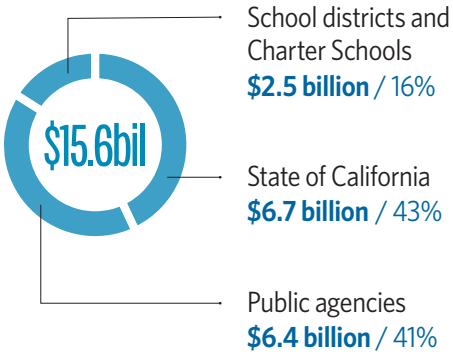



* *These totals include Public Employees' Retirement Fund (PERF) and the terminated agency pool and 1959 survivor benefit plan.*

** *Based on the CAFR for FY 2018-19 using a discount rate of 7.25% for schools, 7% for PAs and state. The funded status is estimated to be 69.8% if using a 7.0% discount rate.*

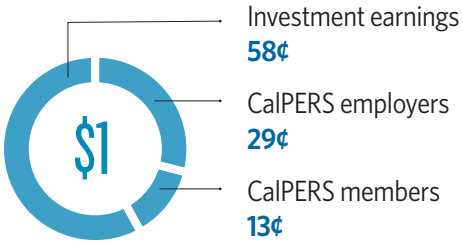
*** *Estimate based on using a 7.0% discount rate and includes the additional payments from the state of nearly $10 billion for the state and school plans.*

## Total Employer Contributions




## Shared Responsibility

Every dollar paid to CalPERS retirees comes from three sources*:




* *Income over the last 20 years.*