



201 Vallecitos de Oro · San Marcos, California · 92069-1453 · (760) 744-0460

Date: June 3, 2020
To: Honorable Board of Directors
Regarding: CalPERS Unfunded Accrued Liability Funding Policy

It is Vallecitos Water District's commitment to excellence which drives staff to identify opportunities to remain efficient, fiscally responsible, and innovative. Managing the CalPERS pension liability is one of the District's most significant financial challenges and has been identified as one of the organization's key strategic initiatives to address. In Fiscal Year 2020 Vallecitos established a policy to pay down the pension liability over a maximum of three years with half of the amount paid in Fiscal Year 2020. On November 20, 2019, in accordance with policy, the District paid \$8.1 million of the CalPERS Unfunded Accrued Liability. Based on the most recent actuarial valuation report, dated June 30, 2018, the District's pension liability was approximately \$19.8 million. After the \$8.1 million payment the revised June 30, 2020 Total Unfunded Liability per CalPERS was \$11.3 million.

At the board meeting on May 20, 2020 staff obtained clear policy direction on how to manage the pension liability over the next couple years. Staff has been instructed to pay \$4.0 million of the pension liability in Fiscal Year 2021 with the remaining amount to be paid in Fiscal Year 2022 at the discretion of the board. Based on guidance and concerns received from the Board of Directors, Vallecitos intends to continue to address the pension liability by doing the following:

- 1) Pay the \$11.3 million pension liability over the next two years at the discretion of the Board with \$4.0 being paid in Fiscal Year 2021. For the five-year plan included in the Fiscal Year 2021 Recommended Budget it is assumed the \$11.3 million won't materially change during that time frame and it assumes a constant 7.0% interest rate being charged.
- 2) Revise the policy brief annually with updated amounts when new actuarial reports are released and incorporate them into Budgets for future fiscal years.
- 3) Maintain flexibility and control with this funding strategy, not locking into any formal arrangements with CalPERS.
- 4) Avoid over-paying, or becoming super-funded, by reassessing the final year's payment as necessary.
- 5) Report back to the Finance Committee and Board of Directors on pension funding status on a regular basis.

Below approximates the fiscal impact of this funding policy in conjunction with the minimum required payments Vallecitos would have to make regardless of the funding policy. This has been incorporated into the Recommended Budget for Fiscal Year 2021.

| | Two Years to 100% Funded | | |
|--|--------------------------|---------------------|----------------------|
| | FY 2021 | FY 2022 | Total |
| Funding Policy | | | |
| Additional Discretionary Payment (ADP) | \$ 4,027,000 | \$ 7,273,000 | \$ 11,300,000 |
| Required Payment on UAL (1) | 850,396 | 1,557,000 | 2,407,396 |
| Unfunded Accrued Liability Payment | <u>\$ 4,877,396</u> | <u>\$ 8,830,000</u> | <u>\$ 13,707,396</u> |
| Approximate Interest Savings | \$ 9,829,000 | | |
| <i>(1) Required payments on the UAL will change when new actuarial reports are released and will be reduced as a result of additional discretionary payments</i> | | | |

Respectfully submitted,

Glenn Pruum, General Manager