

IRC Section 115 Pension Supplemental Trust

Board of Directors

May 3, 2023

Presentation Outline

- Background: District Unfunded Obligations (Pension Plan and Other Post Employment Benefit OPEB)
- Benefits of Section 115 Pension Trust
- Scenarios: \$21 Million to CalPERS vs. to 115 Pension Trust
- 115 Trust Scenarios: Additional Contributions Needed to Reach 100% Funding for the Pension Plan
- Comparison of CalPERS and PARS Pension Trusts
- Recommendation

Background- Pension

- **Benefits**

- Retire directly from District or 5 years CalPERS service
- Benefit based on District service:

Tier 1	Tier 2	PEPRA
2.0%@55	2.0%@60	2%@62

- Benefits changes very limited by CalPERS/State laws
- District trust with CalPERS
 - Funding requirements mandated and Investments determined by CalPERS

Background- OPEB

- Other (than Pension) Post-Employment Benefits
- Benefits
 - Retire directly from District with 5 years CalPERS service
 - District paid monthly medical premium capped since 2009
 - Benefits at District's discretion
- District trust with CalPERS' CERBT* Fund
 - District commenced pre-funding in 2008/09
 - No requirement to pre-fund

*California Employers' Retiree Benefit Trust

Background: District Unfunded Obligations

	OPEB	CalPERS
■ Projected 6/30/22 Unfunded Liability	\$21.4M	\$95.7M
■ Projected Contributions (\$000's)		
• 2022/23	\$4,105	\$13,274
• 2032/33	4,923	22,835
• Change	818	9,561
■ Benefits	Flexible	Mandated
■ Contributions	Flexible	Mandated
■ Investments		
• Expected future returns	6.25%	6.80%
• Investment Control	District	CalPERS

19.4% of Payroll
24.5% of Payroll

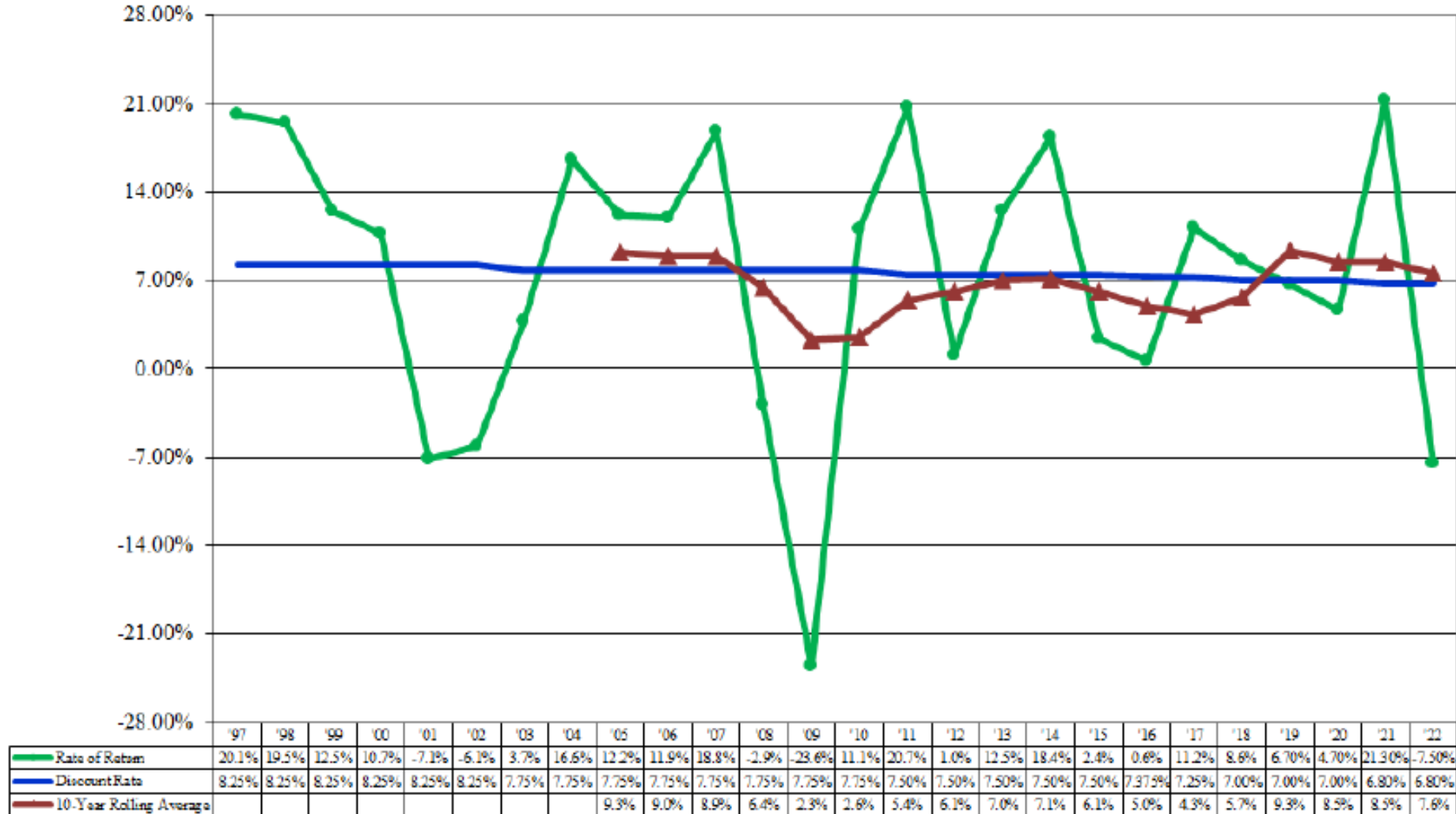
Background: District Unfunded Obligations

- District needs a **sustainable strategy** to address **unfunded** pension and OPEB obligations.
- District's **unfunded obligations** at the end of Fiscal Year 2022 is **over \$117m (Pension \$95m; OPEB \$21m)** .
- In FY23 Operating Budget, the Board approved a pension reserve of \$21 million.
- In October 12, 2022 Board Meeting, staff proposed to set up a pension supplemental trust to pay down the unfunded pension obligations.

Benefits of Section 115 Pension Trust

CalPERS Historical Returns

Annual Return on Market Value of Assets



What is a Section 115 Pension Trust

- **Section 115 Supplemental Trust- May only be used for Pensions:**
 - Reimburse for current year costs or to supplement them
- **Flexibility-Extra payments to PERS don't reduce short-term required**
 - District decides how much to contribute and when to use funds
 - Can Be used to stabilize fluctuating required payments
 - May contribute in years of excess
 - May time withdrawals around market ups/downs
- **Reduces the Unfunded Liability**
 - Target increasing fund balance to achieve full funding sooner

Many Agencies Planning with Pension Trusts

- **Over 200 public agencies have started Pension Trusts to:**
 - Manage Pension and OPEB costs
 - PERS started offering 115 Trusts in 2019 and offers more investment classes

- **Some Local Agencies having formed 115 Trusts, and when:**
 - Transportation Authority of Marin 2019
 - BART 2020
 - MTC 2020
 - Livermore-Amador Valley Transit Authority 2021
 - Santa Clara County Housing Authority 2021
 - Marin County Transit District 2021
 - Santa Cruz County Regional Transportation Commission 2022

Benefits of Section 115 Pension Trust

Comparison

	Section 115 Trust	CalPERS
■ Contributions	Flexible	Mandated
■ Investments <ul style="list-style-type: none">• Horizon• Expected future returns• Portfolio	Short Term 4%-5% Flexible	Long Term 6.8% CalPERS
■ GASB 68 Reporting	Not Included	Included
■ Visibility	Higher	Lower

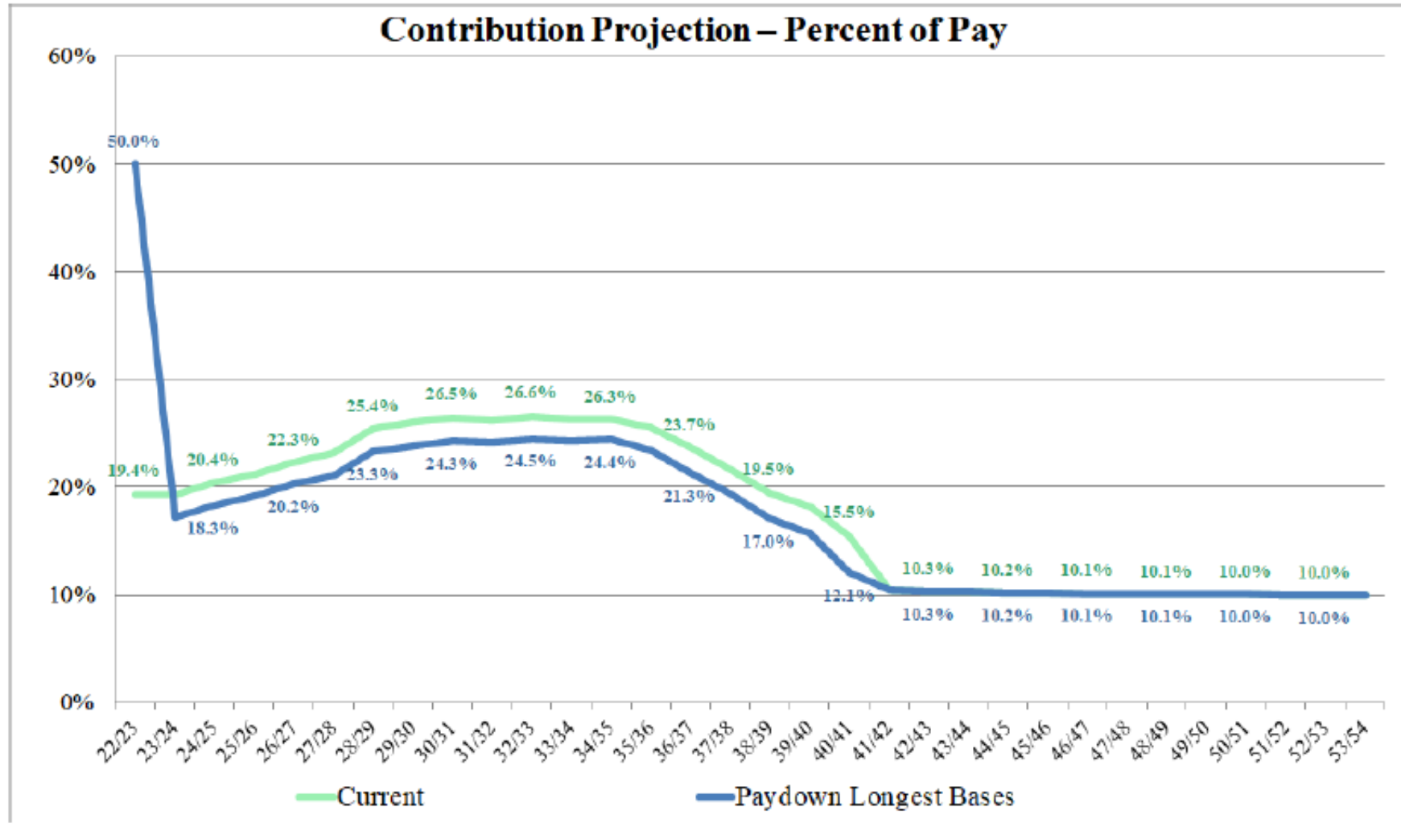
Scenarios: \$21 Million to CalPERS vs. to 115 Pension Trust

Payments to 115 Trust

	Miscellaneous
Trust Contributions	\$21 million on June 30, 2023
Trust Earnings	5%
Trust Target	
- Target Contribution Rate	21.7%
- 1st Year of Trust Withdrawals	2026/27
- Last Year of Trust Withdrawals	2037/38
\$ Savings (000's)	\$12,440
Present Value of Savings @ 3% discount rate (000's)	4,559

Scenarios: \$21 Million to CalPERS vs. to 115 Pension Trust

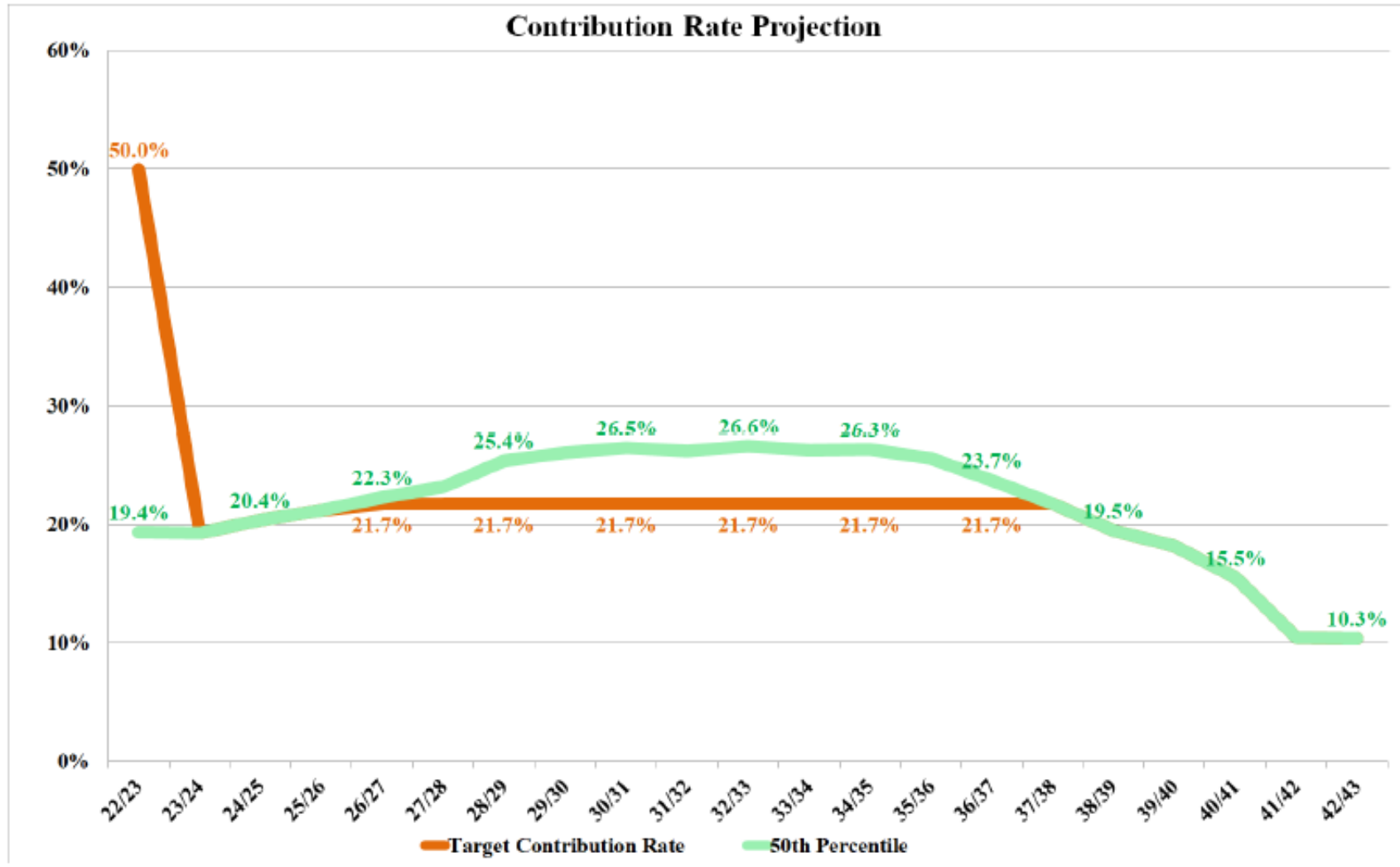
Direct Payment to CalPERS Miscellaneous



Scenarios: \$21 Million to CalPERS vs. to 115 Pension Trust

Payment to 115 Trust Miscellaneous

Contribution Rate Projection



115 Trust Scenarios: To Reach 100% Funding for the Pension Plan

Background & Assumptions

- CalPERS funded ratio and contribution projections:
 - Based on June 30, 2021 CalPERS valuation
 - Includes actual 2021/22 investment return of -7.5%
 - Includes risk mitigation strategy
- Additional contributions needed to reach 100% funding:
 - Asset for funding include CalPERS and
 - Assumed 115 Trust Earnings: 5% per year
 - Level dollar contributions calculated at the end of year

115 Trust Scenarios: To Reach 100% Funding for the Pension Plan

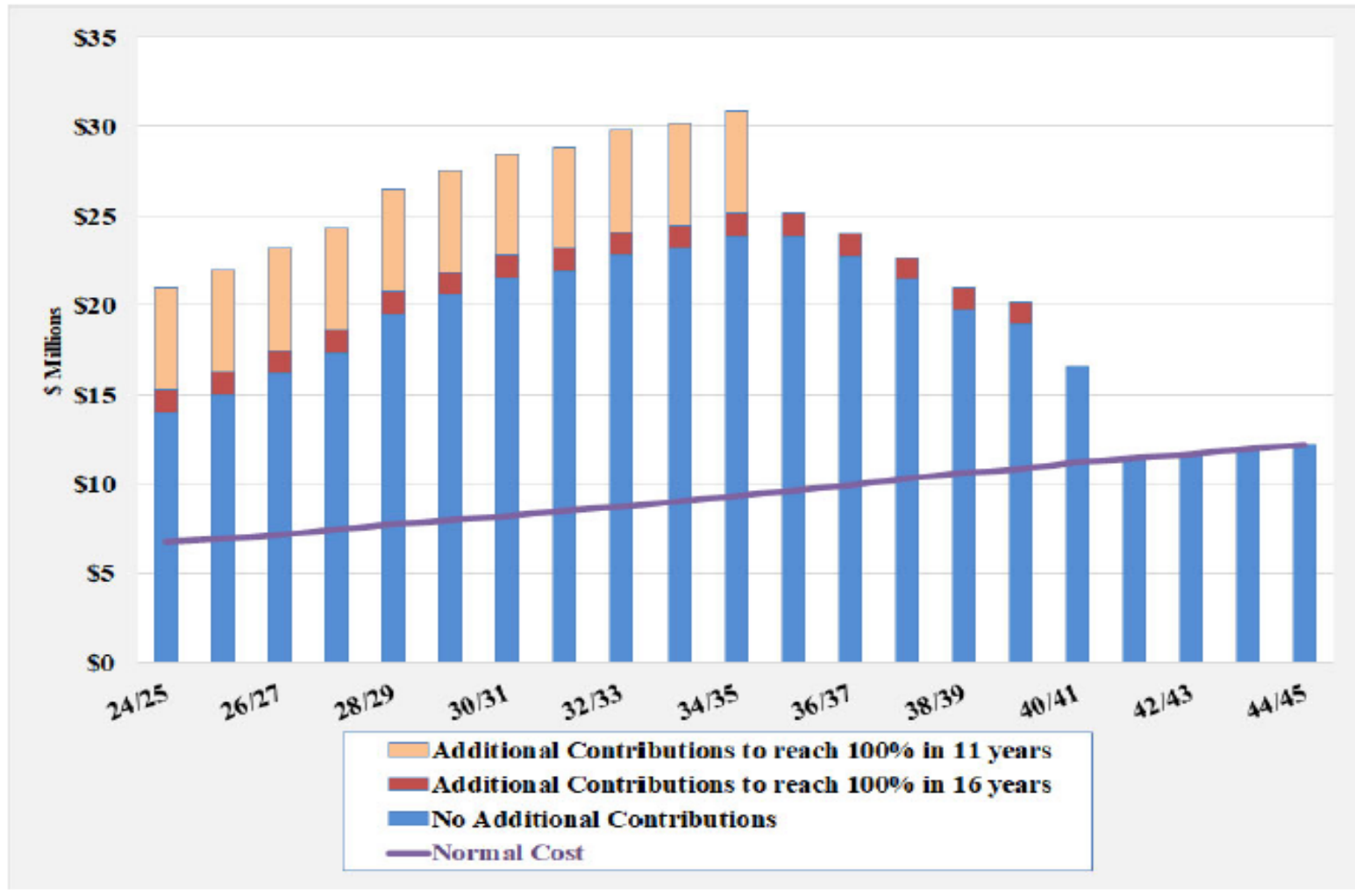
Additional Contributions Needed to Reach 100% Funding

	Timeframe		
	11 years 6/30/2035	16 years 6/30/2040	18 years 6/30/2042
■ Projected Funding Ratio Without Additional Contributions	88%	97%	100%
■ Additional Annual Contributions Needed to Reach 100% Funding	\$7.0 million	\$1.3 million	-
■ 115 Trust assets at end of period	\$99.0 million	\$29.9 million	-

115 Trust Scenarios: To Reach 100% Funding for the Pension Plan

Contribution Projection

(amounts in millions)



Comparison of CALPERS and PARS Pension Trusts

Trust Team/Administrator:	CalPERS*	PARS
Trustee	CalPERS	US Bank HighMark
Investment Management	CalPERS	Capital
Annual Expense Ratio	0.25%	0.30% to 0.60%**
Projected Expense for Assets of \$21 million	\$52,500	\$93,000

*CalPERS Asset Classes include Real Estate and Venture Capital, in addition to Equity and Fixed Income for greater diversification

**Sliding Fee Scale

Recommendation

Staff recommends that the Board approve the District to establish a California Employers' Pension Prefunding Trust (CEPPT) account with CalPERS:

- 1) Approve a CEPPT program agreement with the CalPERS
- 2) Approve the delegation of authority to the General Manager/CEO and the Chief Financial Officer to request disbursements from the CEPPT
- 3) Approve the CEPPT Program Certification of Funding Policy
- 4) Select CEPPT investment strategy 1 (moderate/conservative risk)
- 5) Direct staff to open and fund the trust account over Fiscal Year (FY) 2023 and FY 2024 with the \$21 million pension prepayment reserve fund contribution included in the District's FY 2023 Operating Budget; and
- 6) Authorize the General Manager/CEO or designee to take any other reasonable or necessary actions to implement the District's participation in the CEPPT and give effect to this resolution.