

# WALNUT VALLEY WATER DISTRICT

271 South Brea Canyon Road • Walnut, CA 91789-3002  
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## SPECIAL BOARD MEETING THURSDAY, FEBRUARY 23, 2023 4:00 P.M.

**Agenda materials are available for public review at <https://walnutvalleywater.gov/about-us/meetings-minutes-and-agendas/>.**

**Materials related to an item on this agenda submitted after distribution of the agenda packet are available for public review during regular business hours at the District office, located at: 271 S. Brea Canyon Road, Walnut, CA.**

1. Flag Salute
2. Roll Call: Mr. Hilden \_\_\_\_\_ Ms. Kwong \_\_\_\_\_ Ms. Lee \_\_\_\_\_ Mr. Tang \_\_\_\_\_ Mr. Woo \_\_\_\_\_
3. Public Comment President Hilden

The Presiding Officer of the Board of Directors may impose reasonable limitations on public comments to assure an orderly and timely meeting.

A. **Agenda Items** - Any person desiring to address the Board of Directors on any Agenda item may do so at the time the item is considered on the Agenda by requesting the privilege of doing so at this time and stating the Agenda item to be addressed. At the time the item is discussed, those requesting to speak will be called to do so.

B. **Non-Agenda Items** - At this time, the public shall have an opportunity to comment on any non-agenda item relevant to the jurisdiction of the District. Reasonable time limits on each topic and on each speaker are imposed in accordance with Board policy.

4. OPEB and PERS Funding
5. Introduction to the Rate Study
6. Administrative Facilities Update
7. Other

Adjournment

Pursuant to the Americans with Disabilities Act, persons with a disability who require a disability-related modification or accommodation to participate in a meeting may request such modification or accommodation from the District's General Manager's Office at (909) 595-1268 Ext. 201. Notification forty-eight (48) hours prior to the meeting will enable District staff to make reasonable arrangements to assure accessibility to the meeting.

I, Lucie Cazares, CMC, Walnut Valley Water District, do hereby certify, under penalty of perjury under the laws of the State of California that a full and correct copy of this agenda was posted pursuant to Government Code Section 54950 et. seq., at 271 S. Brea Canyon Road, Walnut, CA., and uploaded to the Walnut Valley Water District website <https://walnutvalleywater.gov/about-us/meetings-minutes-and-agendas/>

Date Posted: February 22, 2023

Lucie Cazares, CMC, Executive Secretary

# Pension Funding Update

Walnut Valley Water District



# Pension Funding Agenda



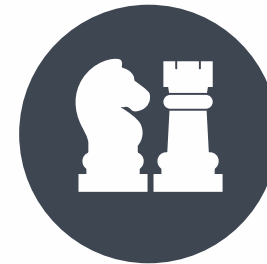
Pension Basics



Volatility Stress Test



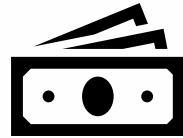
How is your agency  
doing relative to your  
funding targets?



Strategies & Tactics

# Pension Basics

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**GovInvest**  
The Financial Forecasting Authority

# Retirement Benefits

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Provided through California Public Employees Retirement System (CalPERS), a multi-employer pension & health care administrator

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Promised benefit is made by the contracting agency and thus the local agency's obligation not CalPERS

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Once the promised benefit is made, the benefit can only be changed prospectively per the California Constitution "California Rule"

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Exiting CalPERS is not a practical option, the termination liability is cost prohibitive.

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Revised benefit structure for employees hired on or after January 1, 2013 due to Public Employees Pension Reform Act (PEPRA)

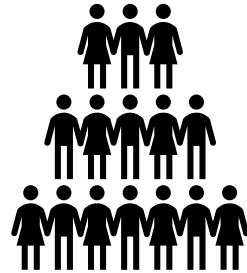
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# Assumptions Set Future Cost & Funding Expectations



## Economic

- Inflation
- Investment Return
- Salary Growth



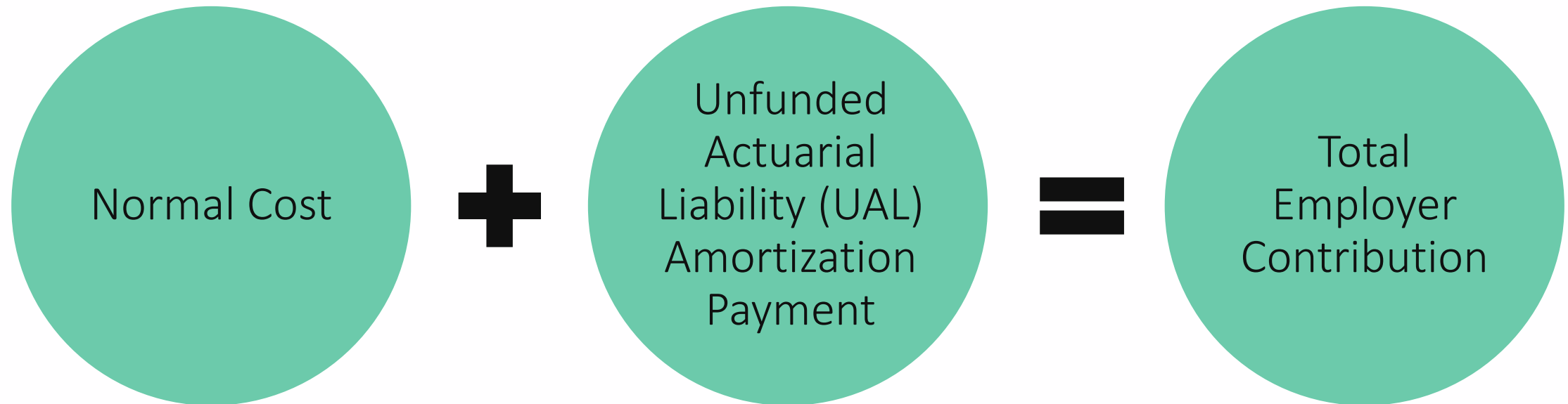
## Demographic

- Retirement
- Disability
- Death
- Termination

## Funding a Pension Plan



# Actuarially Determined Contribution

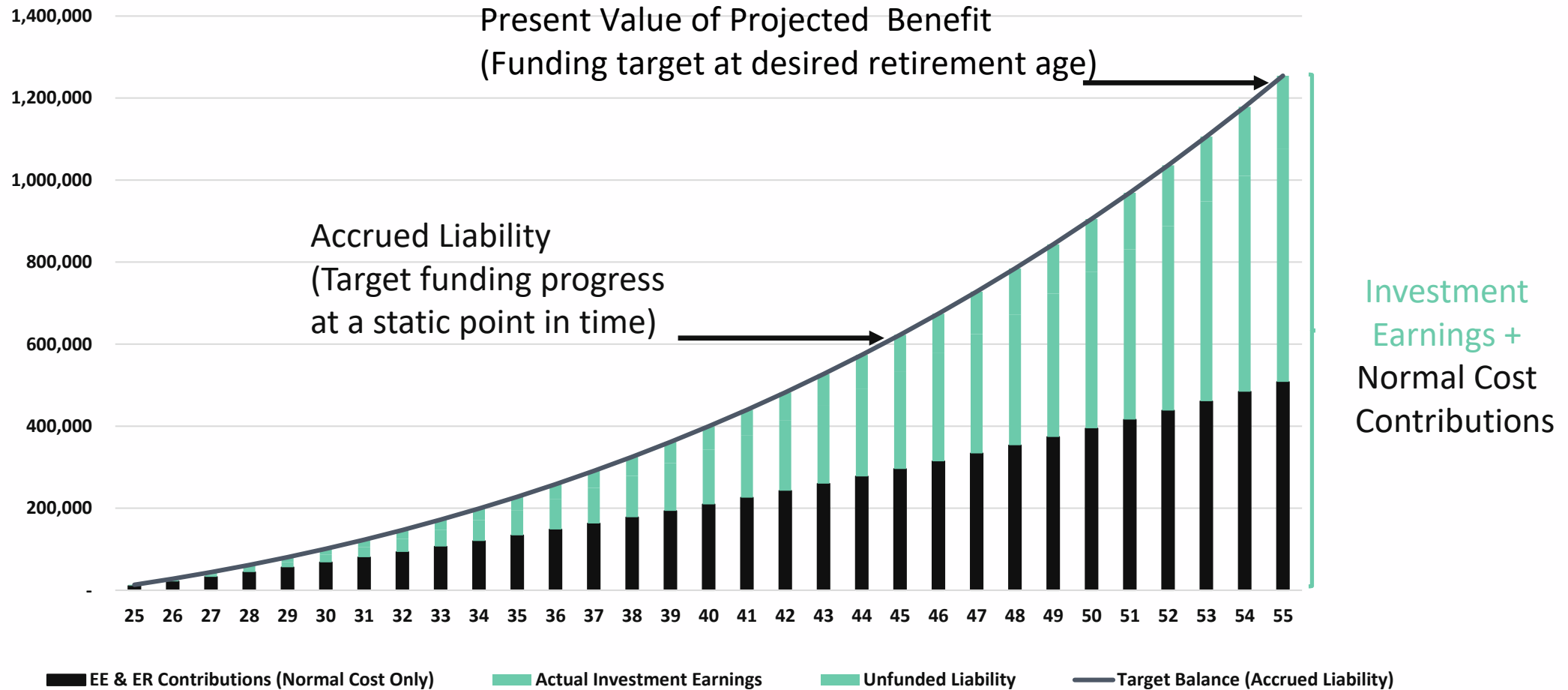


**Normal Cost** – the cost for current service paid as a percent of payroll. Increases when payroll increases, decreases when payroll decreases

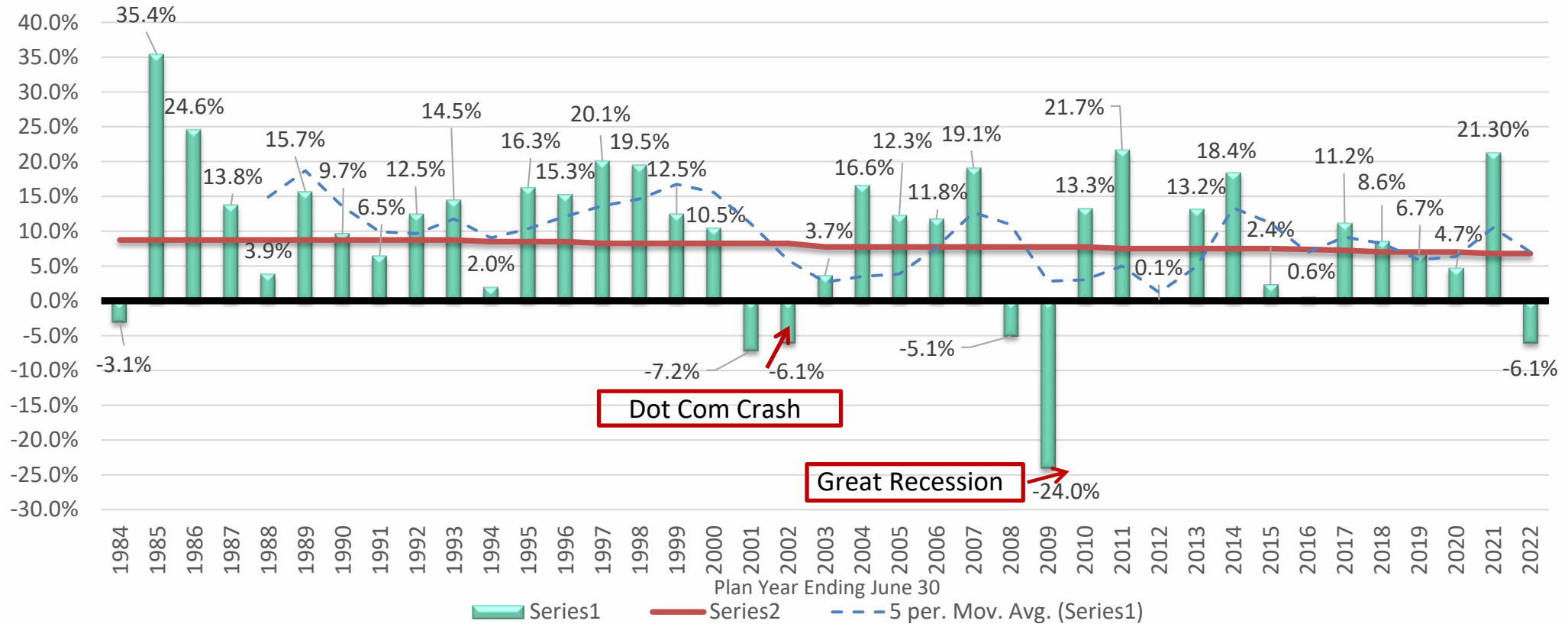
**UAL Contribution** – payment toward past service. Paid as a fixed dollar amount each year.



# Retirement Plans Are Sensitive to Investment Earnings



# CalPERS Historic Investment Returns



Historical Compound Annual Rate of Return					
	1 Year	5 Year	10 Year	20 Year	30 Year
Compound Annual Return	-6.1	6.7%	7.7%	6.9%	7.7%

# 2021 Actual Experience vs Assumption



**CalPERS Investment Return:  
June 30, 2021  
21.3% Investment Return**

**Experience Gain  
21.3%(Actual); 7% (Assumed) = 14.3%**

<https://www.calpers.ca.gov/docs/funding-risk-mitigation-policy.pdf>



**CalPERS Investment Return:  
June 30, 2022  
-6.1% Investment Return**

**Experience Loss  
-6.1%(Actual); 6.8% (Assumed) = 12.9%**

<https://www.calpers.ca.gov/docs/funding-risk-mitigation-policy.pdf>

# 2021 Experience Gain Vs 2022 Experience Loss



	Invest	Gain/(Loss)
Invest	10,000	
<b>2021 Experience Gain</b>	<b>14.3%</b>	
6/30/2021 Balance	11,430	1,430
<b>2022 Experience Loss</b>	<b>-12.9%</b>	
6/30/2022 Balance	9,956	(1,474)
		(44)



# CalPERS Actual Returns as they Impact your Plan(s)



## Market Value of Assets

Fiscal Year	Investment (Time-Weighted)		ACFR & Valuation Reports (Money-Weighted)	
	Market Value of Assets*	1-Yr Return*	Market Value of Assets**	1-Yr Return**
FY21/22	\$440.2 billion	-6.1%	\$439.4 billion	-7.5%
FY20/21	\$470.8 billion	+21.3%	\$477.3 billion	+22.4%

\* Reflects private equity and real asset valuations as of Mar 31

\*\* Reflects private equity and real asset valuations as of June 30

# Agency Specific Update



**GovInvest**  
The Financial Forecasting Authority

# Overall Pension Funding Trend



Fiscal Year End	2019	2020	2021	2022	Change	
Accrued Liability (AL)	\$56,185,858	\$58,664,600	\$61,225,745	\$66,171,498	\$4,945,753	↑
Assets with CalPERS	\$40,715,912	\$41,829,548	\$49,266,168	\$47,715,412	\$1,550,756	↓
Unfunded Accrued Liability (UAL)	\$15,469,946	\$16,835,052	\$11,959,577	\$18,456,086	\$6,496,509	↑
Funded Status	72.47%	71.30%	80.47%	72.11%	8.36%	↓
Assumption	7.00%	7.00%	7.00%	6.80%		
Actual Experience	6.70%	4.70%	21.30%	-7.50%		
Experience Gain/Loss	-0.30%	-2.30%	14.30%	-12.70%		

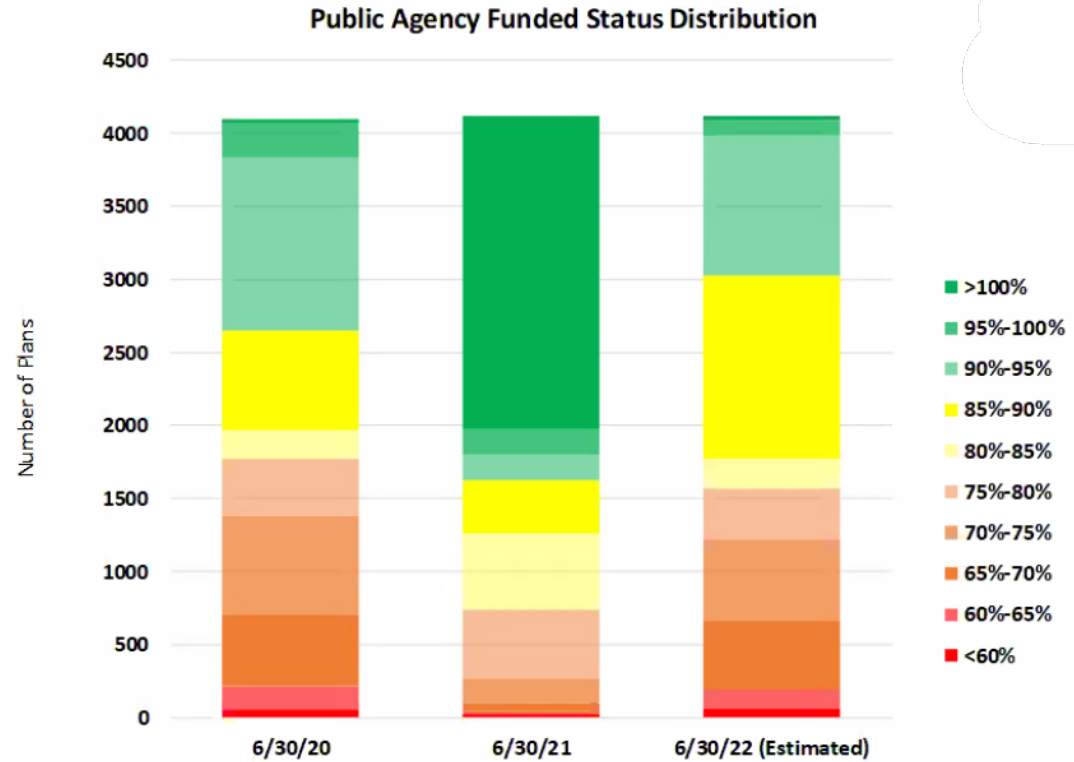


# Comparison to Other Public Agencies



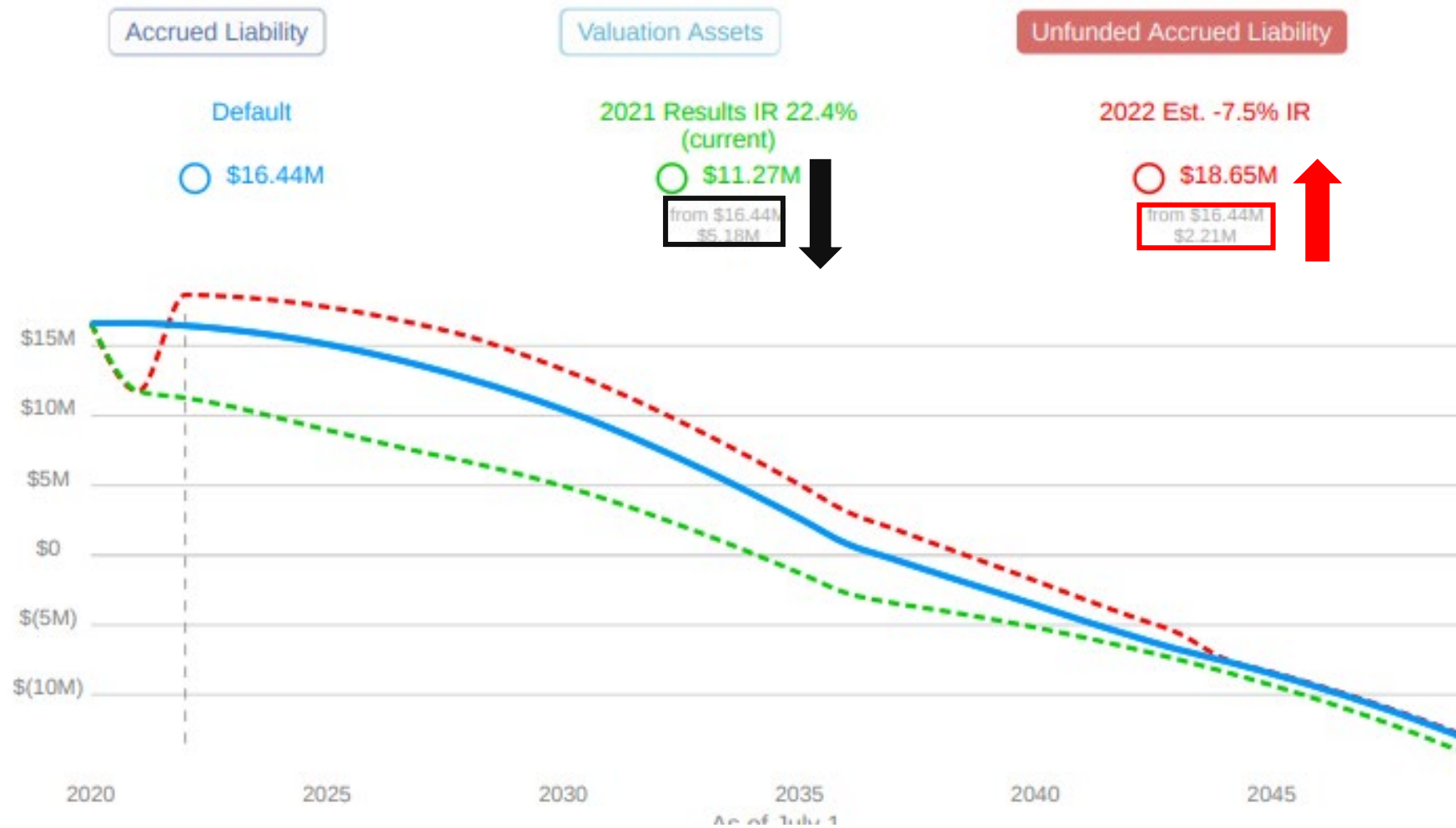
6/30/2022 Estimates —  
Public Agency  
Funded Ratios

Source:

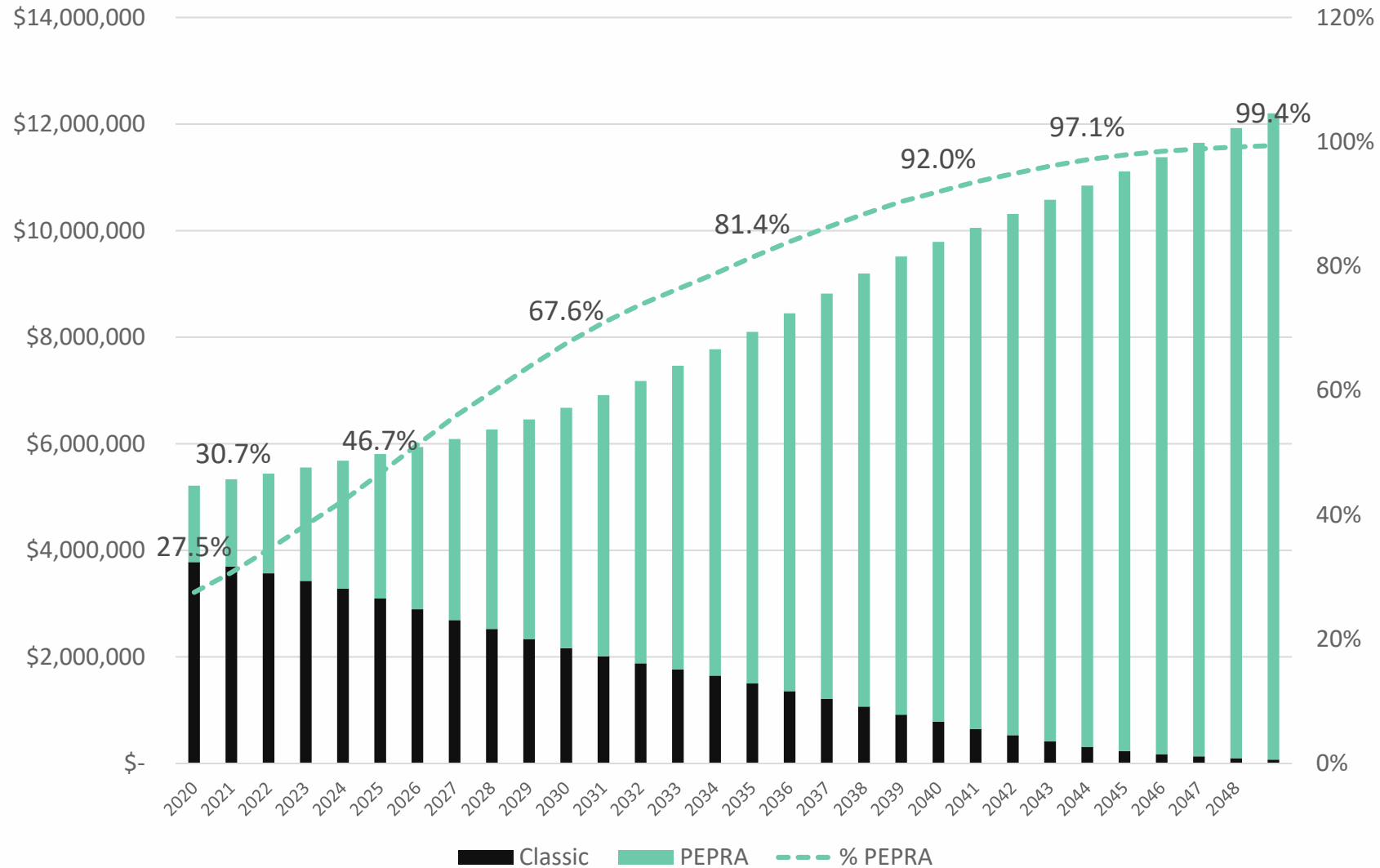


	6/30/20	6/30/21	6/30/22 (Estimated)
Total PERF	70.6%	81.2%	72%
Walnut Valley WD	72.1%	81.9%	72.1%

# UAL Comparison



# Projected Classic vs PEPRA Payroll



# Total Required Employer Contributions



# Stress Test Scenarios

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**GovInvest**  
The Financial Forecasting Authority

# Expect Volatility



Unprecedented  
Market Dynamics



Source:



# Annual Amortization Payment

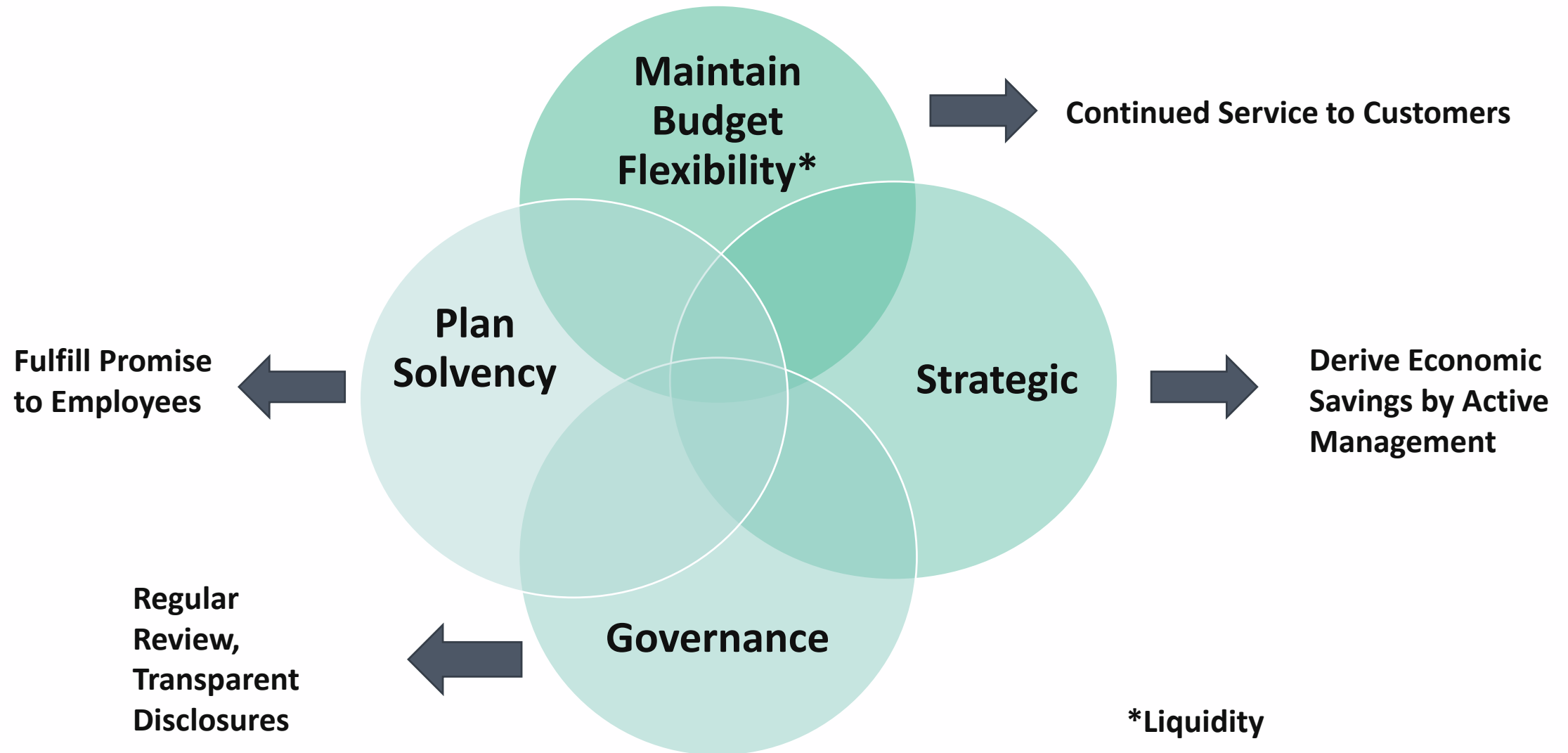


# Pension Strategies

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# Active Pension Management Pension Goals



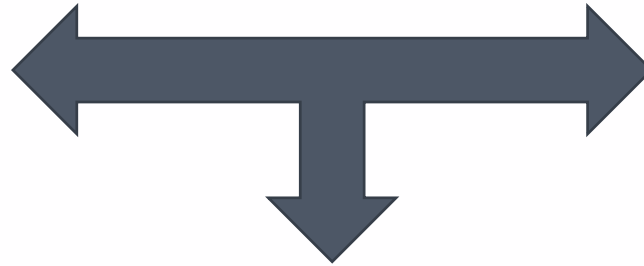
# Pension Goal Dilemma



1

Paydown UAL As Fast as Possible  
Maximize Interest Savings

Opposing Goals



2

Preserve Budget Flexibility In the  
Short to Medium Term

Long-term Methodical Approach  
Paydown UAL While Avoiding Pension Peaks

3

# Pension Management Tools

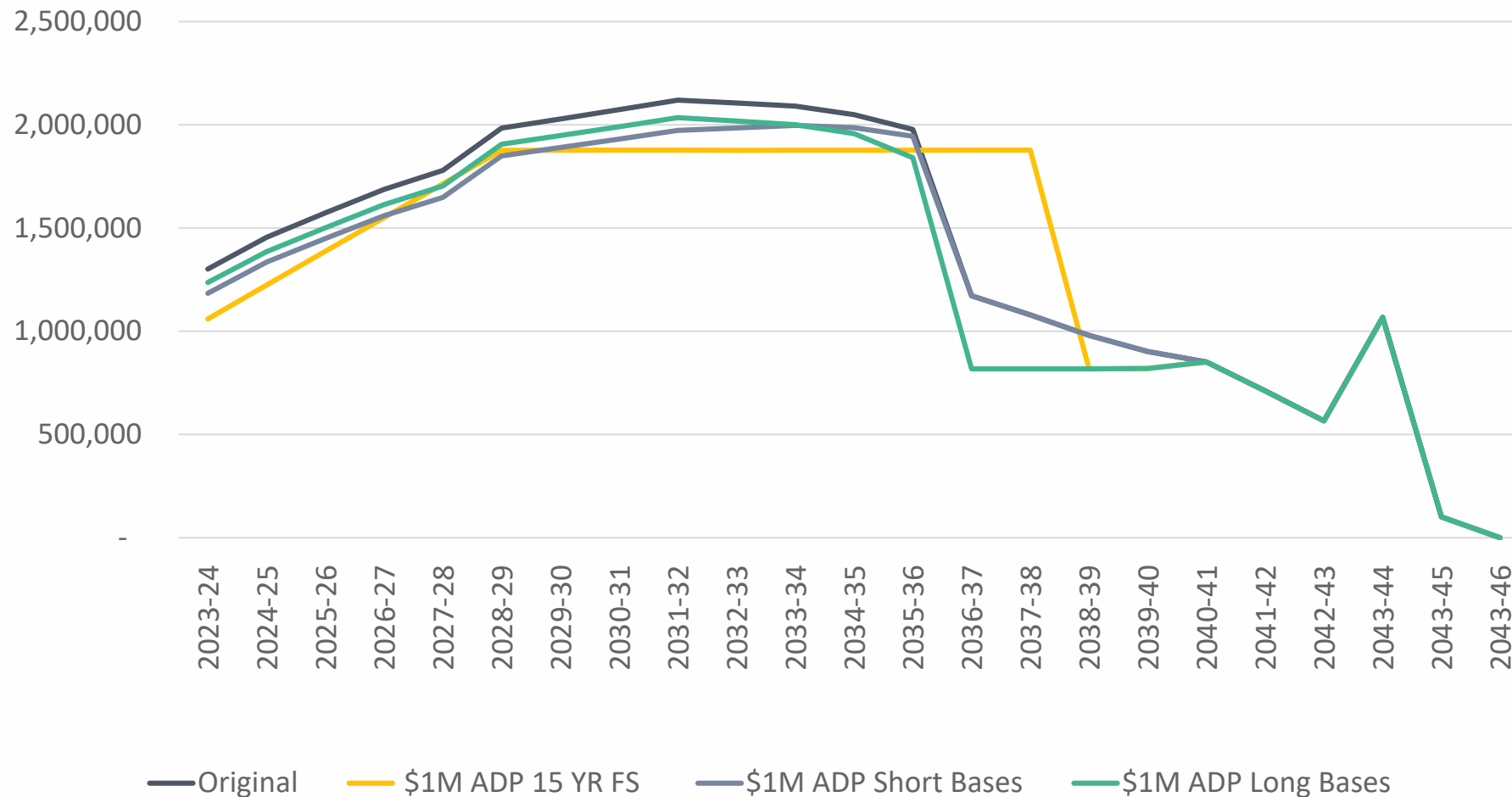


- Additional Discretionary Payments
  - Near-term Savings
  - Long-term Savings
- Full or Partial Restructuring of UAL Payment Schedule
- Pension Volatility Reserve
  - Internal Reserve (Substantial Increase in Fixed Income Yields Over Last Yr.)
  - S115 Trust (Higher Potential Long-term Returns; Short Term Volatility)
- Pension Funding/Reserve Policy

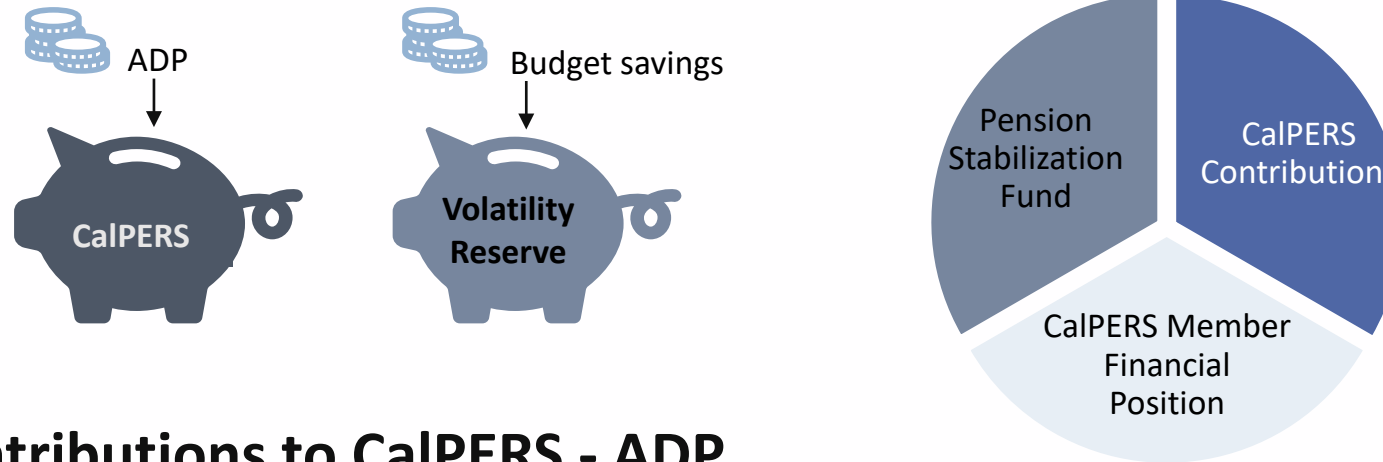
# \$1M ADP Options



2022 Projection Including -7.5% Investment Loss



# Consider a Balanced Approach



## Direct Contributions to CalPERS - ADP

- ▶ Reduces net pension liability in financial statements immediately
- ▶ Minimal impact on magnitude of future contribution

## Volatility Reserve – Internal Reserve or Section 115 Trust

- Allows entity to control cash flow to pension by using Volatility Reserve assets to augment contributions
- Creates the ability to stabilize contributions over the long term

# Funding Policy Development



- Documents Pension Management Goals
- Demonstrates Council Intent to Fulfill Promised Benefit
- Demonstrates Long-term Fiscal Discipline
- Reassures Council commitment to Creditors, Staff & Stakeholders
- Provide General Roadmap for Staff and Future Councils
- If Volatility Reserve is established, considers target reserve balances and use guidelines
- Establishes Governance procedures

# Summary Recommendations



- 1) Restructure UAL Payment Schedule to:
  - a) Preserve Budget Flexibility in near term
  - b) Level payment in consideration of customers
- 2) Establish Reserve to mitigate the impact of market volatility
- 3) Develop Pension funding policy

# Questions

