

POLICY TITLE: (PROPOSED) PENSION FUNDING POLICY

POLICY NUMBER: XXXX

XXXX.X Purpose. The purpose of this Pension Funding Policy (Policy) is to establish a plan, methodology and a process for funding current and future costs associated with the District's contractual obligations to provide pension benefits, and that the cost of those benefits will be funded in an equitable and sustainable manner.

XXXX.X Background. The District provides its permanent employees with a defined benefit pension through the California Public Employees' Retirement System (CalPERS). Recent changes at CalPERS have increased the District's required payments to the pension plan and decreased the plan's funded status. The District is anticipating that CalPERS will continue to enact changes to increase the financial stability of its pension program, and that those changes will result in higher District contributions. The District has assessed options to help address the increased pension costs and their volatility and has determined that it would be beneficial to join a trust in which to set aside District funds for future pension payments.

XXXX.X Policy.

It is the policy of the District to fulfill its obligation to maintain fiscally responsible management practices and to ensure that promised pension benefits are funded. To that end, the District will meet its pension funding obligations as follows:

1. **Actuarially Determined Contributions:** Each fiscal year, the District will contribute to CalPERS the amount determined by CalPERS actuaries to be the minimum required employer contribution for that year. The minimum employer contribution consists of two components, normal cost and unfunded accrued liability ("UAL"). The normal cost is expressed as a rate that is applied to pensionable payroll costs and reflects the cost of pension benefits earned by employees in the current fiscal year. The UAL payment is a flat dollar amount that represents a portion of the cost of past benefits earned by employees, but for which, because of deviations in actual experience and changes in assumptions about investment performance, the normal cost rates established for those prior years have been determined to be insufficient to provide the promised retirement benefit. The CalPERS actuaries recalculate the total UAL each year and an updated multi-year amortization schedule is provided to show the projected annual minimum required employer payments.
2. **Annual UAL Payment:** CalPERS offers the option to make monthly payments on the UAL or prepay the entire annual UAL amount at a discounted level by the end of July. Assuming the District's current reserves meet their respective reserve policies, the District will prepay its annual UAL payment each July to achieve budgetary savings.
3. **Section 115 Pension Trust:** The District will establish and maintain a pension stabilization fund in the form of a Section 115 Pension Trust (Trust). Assets in the Trust may be used only for pension related costs and at the direction of the Board. The District's objective with the Trust is to accumulate assets to fund its CalPERS pension costs and future obligations, as well as mitigate the budget impact of costs associated with future UAL. The District will strive to meet the following guidelines:
 - a. **Initial Deposit:** To begin the funding of the Trust, the District will make a one-time contribution of \$135,000 to the Trust utilizing previously set aside reserve funds allocated by the Board.
 - b. **Ongoing Deposits:** The District will consider making additional contributions to the Trust on an annual basis at a minimum every year. District staff may bring forward an additional contribution to the Trust Plan. The total recommended contribution amount within the following year's annual budget will be approved

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- by the Board via Resolution as part of the annual Resolution adopting said annual District budget.
- c. Use of Trust Funds: Funds as allowed by the Trust may be used for any of the following purposes: (1) District's annual UAL payment to CalPERS, (2) District's annual normal cost payment to CalPERS, (3) reimbursement to the District for CalPERS pension costs, and (4) Additional Discretionary Payments to CalPERS. Withdrawals will be recommended by the General Manager or designee during the budget process or as a separate Board Agenda Item for approval.
4. **Additional Discretionary Payments:** CalPERS allows member agencies to make Additional Discretionary Payments (ADPs) at any time and in any amount, which would serve to reduce the District's UAL and future required contributions. Once the District's Trust is established, the District has the option to make ADPs to CalPERS using the assets held in the Trust, if desired. The District will consider ADPs within the context of its annual evaluation of reserve levels, budgetary requirements, funded ratio, and other timing considerations unique to CalPERS' investment performance. ADPs may prove to be advantageous in the future once Trust levels are funded to sufficient thresholds to stabilize budgetary volatility.

XXXX.X Delegation of Authority. The management oversight responsibility for the District's pension program is delegated by the Board to the General Manager. The General Manager may delegate the authority to conduct transactions and to manage the operation of the Section 115 Trust to the Director of Finance and Administration. These officers shall meet regularly to discuss retirement costs and to review CalPERS actuarial report and the District's normal cost and UAL. Contributions and withdrawals must meet the District's fiscal objectives. No person may engage in additional pension transactions except as expressly provided under the terms of this Policy.

XXXX.X Reporting. Addressing retirement costs is a dynamic process. CalPERS makes adjustments annually to the District's normal Cost and Unfunded Accrued Liability (UAL). These changes require multi-year financial planning and for the District to make corresponding budgetary adjustments. The District shall therefore evaluate its pension liabilities each year.

After the release of the most current CalPERS actuarial report, District staff shall present a summary of each plan's funding status. New amortization levels shall be specifically addressed. This information shall be presented during a public Board meeting, which shall include a summary of funding status, funding progress compared to prior years, as well as any recommended actions and/or budget adjustments to address areas of concern.

XXXX.X Policy Review. The District shall review this Policy periodically to determine if changes to this policy are necessary to ensure progress is being made towards funding the District's CalPERS pension costs and mitigating the impact of the costs associated with future UAL.

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