



AGENDA STAFF REPORT

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Agenda Number: E
File ID: 0018.12

Section Name: Finance
Project ID: NA

MEETING DATE: July 9, 2024

SUBJECT: Approve lump sum payment of \$10,862,811 to the California Public Employees Retirement System (CalPERS) unfunded accrued liability for fiscal year 2024-25.

TO: BOARD OF DIRECTORS

FROM: FINANCE, KARLA ROMERO

GENERAL MANAGER RECOMMENDATION:

RECOMMENDATION:

Approve lump sum payment of \$10,862,811 to the California Public Employees Retirement System (CalPERS) unfunded accrued liability (UAL) for fiscal year 2024-25 and request staff to evaluate the future formation of a Section 115 Trust for Pension Obligations.

BUDGET IMPACT:

The FY 2024-25 budget includes \$17,921,891 to pay for the annual CalPERS UAL; payments may be made during the twelve months of the fiscal year or as an annual lump sum by July 31st of each year. The lump sum prepayment option includes a discount of 3.4% and an extended investment timeframe with CalPERS at a 6.8% expected rate of return. Below is a summary of monthly versus lump sum payment options for CVWD:

Fiscal Year	Monthly Payment			Annual Lump Sum	Savings	YOY Changes	% Change				
FY 2021/22	\$	1,200,757	\$	14,409,084	\$	13,929,790	\$	479,294			
FY 2022/23	\$	1,393,518	\$	16,722,216	\$	16,165,972	\$	556,244	\$	2,236,182	
FY 2023/24	\$	1,393,518	\$	16,722,212	\$	16,181,102	\$	541,110	\$	15,130	0%
FY 2024/25	\$	935,506	\$	11,226,072	\$	10,862,811	\$	363,261	\$	(4,955,030)	-31%
FY 2025/26*	\$	948,000	\$	11,376,000	\$	10,977,840	\$	398,160	\$	149,928	1%
FY 2026/27*	\$	1,021,833	\$	12,262,000	\$	11,832,830	\$	429,170	\$	886,000	8%
FY 2027/28*	\$	1,081,167	\$	12,974,000	\$	12,519,910	\$	454,090	\$	712,000	6%
FY 2028/29*	\$	1,220,083	\$	14,641,000	\$	14,128,565	\$	512,435	\$	1,667,000	13%
FY 2029/30*	\$	1,242,333	\$	14,908,000	\$	14,386,220	\$	521,780	\$	267,000	2%
TOTALS		\$	125,240,584	\$	120,985,040	\$	4,255,544	\$	978,210		
FUTURE TOTALS ONLY		\$	66,161,000	\$	63,845,365	\$	2,315,635	\$	3,681,928		

* Estimates for future FY's are provided annually with valuation reports provided by CalPERS.

PROCUREMENT METHOD:**X** N/A

If other, please explain: .

BACKGROUND

On an annual basis, CalPERS provides an actuarial valuation (Attachment 1), which includes calculations of the required employer and employee contributions. The employer's contribution is made up of two components: Normal Cost and the UAL contributions. Normal Cost are paid on a bi-weekly basis when payroll is processed. CalPERS offers two UAL payment methods: (1) Twelve equal monthly payments; (2) Prepay the UAL portion of the employer contribution on or before July 31st at a discounted rate of 3.4%, resulting in savings.

For fiscal year 2024/25, the total UAL due is \$11,226,072 if paid in twelve equal monthly payments. The prepayment option reduces the total amount due to \$10,862,811 if paid in full by July 31st, resulting in a current year UAL payment obligation savings of \$363,261.

Staff and Chandler Asset Management, CVWD's investment advisors, reviewed both payment alternatives. As shown in the attached calculation (Attachment 2), prepaying the UAL is fiscally sound therefore staff recommends prepayment of the UAL to CalPERS.

In the past, CVWD has opted to take advantage of the UAL lump-sum prepayment option offered by CalPERS, which will allow the required UAL payment to be invested faster within CalPERS's investment portfolio as opposed to paying it monthly throughout the year.

Historically, the CalPERS investment portfolio earns higher returns as compared to CVWD's normal District portfolio. The main reason is that the District's investment policy is by law more restrictive than the CalPERS investment policy. By California law, CalPERS is permitted to invest in public and private equities and real estate, while they are prohibited for local governmental entities. Attachment 3 provides a 10-year historical summary of CalPERS investment returns.

A 10-year strategy to pay down the current UAL balance of \$150,159,425 was discussed on March 21, 2023, during the FY 2023-24 Budget Study Session and Debt Overview presentation. The FY 2024/25 budget incorporated the accelerated repayment strategy by taking the FY 2023-24 total monthly payments of \$16,722,212 and increasing them by 7% to account for salary adjustments for a total of \$17,921,891. This strategy allocates a budgeted additional discretionary payment (ADP) of \$6,695,819.

A summary of CVWD's historical UAL balances is provided below.

Fiscal Year	Pension Liability Balance	
2018/19*	\$	137,396,761
2019/20*	\$	123,939,281
2020/21*	\$	123,435,207
2021/22*	\$	74,483,895
2022/23*	\$	136,839,792
2023/24**	\$	150,159,425
* As reported in CVWD's annual audited financial statements.		
** As reported by CalPERS Annual Valuation Report dated 7/2023.		

The ADP of \$6.7 million may be sent directly to CalPERS or the District may establish a Pension Section 115 Trust. Based on the volatility of CalPERS investment returns and the additional flexibility provided by establishing a Section 115 Trust, staff recommends evaluating Section 115 Trust options with a future recommendation to the Board by December 2024.

PRIOR BOARD ACTION:

4/16/24 – Budget Study Session for FY 2024/25

3/21/23 – Budget Study Session and Debt Overview for FY 2023/24

DISTRICT STRATEGIC PLAN GOAL(S)/OBJECTIVES(S):

Taking advantage of savings and strategically reducing pension obligations supports the District's strategic goal of financial viability.

ENVIRONMENTAL IMPACT:

N/A

N/A

This is not a project as defined by CEQA; therefore, approval does not require any CEQA action.

PUBLIC NOTICE REQUIRED

N/A

LEGAL REVIEW

N/A

ATTACHMENTS

Attachment 1 – CalPERS Valuation Report Dated July 2023

Attachment 2 – Monthly vs Lump Sum Investment Options Analysis

Attachment 3 – CalPERS Facts at a Glance FY 2022/23