Tahoe City Public Utility District
Financial Policy

Pension Funding Policy
Policy Number: 2020

I. PURPOSE

This Policy sets forth the parameters and guidelines for development of a funding plan for the District's CalPERS defined benefit pension plans (Pension Plans). This Policy is intended to provide reasonable assurance that the associated costs will be funded in a sustainable manner in accordance with the District's responsibilities to its taxpayers, ratepayers, and residents and to ensure that resources are available to fulfill the District's contractual commitment to it employees and retirees.

II. POLICY OVERVIEW

This Policy is established to ensure that the District meets its contractual obligations, demonstrates sound and prudent decision making while managing pension cost, and supports the overall decision-making process of the District. This Policy shall be consistent with the overall purpose and goals of the District's strategic plan and its core operating principles.

The District recognizes that a fiscally prudent Policy should:

- Help maintain the District's sound financial position
- Align with the District's Long-Term Financial Plan
- Provide guidance in making annual budget decisions
- Ensure the District has the flexibility to respond to changes in future service priorities, revenue levels, and operating and capital expenditures
- Ensure that all pension funding decisions are structured to protect both current and future taxpayers, ratepayers, and residents of the District
- Protect the District's ability to provide employees with promised pension benefits

The primary goals of this Policy are to 1) fulfill commitment to employees, 2) continue to provide fiscally sound services to the taxpayers, ratepayers, and residents of the District, and 3) provide regular review and ensure transparency of Pension Plans funding.

Background

On December 13, 1976, the District entered into a retirement agreement with CalPERS to participate in the Pension Plans where retirement benefits are calculated based on a member's years of service, age at retirement, and maximum one-year compensation. Currently, eligible District employees are enrolled in either the Classic plan or the PEPRA plan (see Definitions).

These Pension Plans are funded through a combination of employer payments, employee payroll deductions, and earnings from investments. The District's Classic members pay the member contribution rate of 8% of their pension-eligible salary and an additional employee cost-share amount of 2.0% towards the Employer's Normal Costs. PEPRA members pay the member contribution as set by the CalPERS annual valuation report.

Every four years, CalPERS performs an Asset Liability Management (ALM) process. The goal of the ALM process is to balance the expected cost of future pension payments with the expected future investment returns. This ALM process typically results in changes to CalPERS' discount rate and actuarial assumptions.

Annually, CalPERS prepares and provides a valuation report for the District which sets the annual Employer Normal Cost Rates for both Classic and PEPRA members and the annual payment for the Amortization of the UAL for Classic and PEPRA members. The combination of the Employer Normal Cost Rates and the annual payment for the Amortization of the UAL is known as the annual Minimum Required Employer Contribution (MREC). As required by CalPERS, the District fully funds the MREC annually.

The valuation report also contains important information regarding the current financial status of the plan as well as projections and risk measures to aid in planning for the future.

III. DEFINITIONS

As used in this Policy, the following terms shall have the meanings specified below:

a. Accrued Liability (AL) – is the gross pension liability associated with past service at a specific measurement date representing the cumulative obligation to employees and retirees.
b. Additional Discretionary Payments (ADP) – Additional contributions made directly to CalPERS in addition to the Minimum Required Employer Contributions.
c. Amortization of the Unfunded Accrued Liability (UAL) – represents the employer's minimum annual contribution to the Unfunded Accrued Liability per CalPERS Amortization Policy.
d. Board – The lawfully elected or appointed governing body of the TCPUD.
e. California Public Employees' Retirement System (CalPERS) – manages and administers the California pension and health benefits for state workers and local public agencies such as cities, counties, and special districts. They offer various defined benefit retirement plans based on members years of service, age at retirement, and maximum compensation.
f. Classic Member - are those that joined the CalPERS system prior to January 1, 2013.
g. District – Tahoe City Public Utility District (District or TCPUD).
h. Employer Normal Cost Rate – represents the annual service cost of an additional year of service credit to fund the promised post-employment benefit, expressed as a percent of payroll.
i. Funded Status – A measure of plan solvency, the funded status is calculated by dividing the market value of the assets by accrued liability.
j. Market Value of Assets (MVA) – is the present value of assets held in an irrevocable trust for the specific purpose of satisfying the pension liability.
k. Minimum Required Employer Contribution (MREC) – the annual amount the employer is required to pay; made up of the Employer Normal Cost and the annual Amortization of the Unfunded Accrued Liability.
l. Public Employees' Pension Reform Act (PEPRA) member - are those that joined CalPERS for the first time on or after January 1, 2013, having no prior membership in another California public retirement system.
m. Policy – This "Pension Funding" Policy.
n. Section 115 Trust – an irrevocable trust for setting aside monies for the purpose of funding future pension contributions or liabilities.
o. Unfunded Accrued Liability (UAL) is the net pension liability representing the arithmetical difference between the Accrued Liability and Market Value of Assets.

IV. PROCESS

Funding the Defined Benefit Pension Plans and Funded Status Target

Meeting the three goals of the Policy will require carefully considered strategies for funding the Pension Plans and evaluating the Funded Status of the Pension Plans.

Goal 1: Fulfill commitment to employees. Pension Plan solvency will be addressed by setting minimum and maximum Funded Status targets and enrolling in a Section 115 Trust:

- Set Funded Status Target – The District will target a Funded Status of 85% with a minimum Funded Status of 75% and a maximum of 100%. If the Funded Status should fall below 75%, the Board may make contributions until the minimum target is achieved.

- Section 115 Trust & Flexibility – the District will enroll in a Section 115 Trust where funds are set aside in an irrevocable trust that can be used only for current and future pension contribution or paying down the UAL. The Section 115 Trust will allow budgetary flexibility for the District. The minimum target balance is 3% of the Accrued Liability noted in the most recent CalPERS valuation report. Funding the Section 115 Trust is at the Board's discretion.

- Insufficiency of Funds for MREC – In the very rare event the District is unable to fund the full MREC in a given year, the Chief Financial Officer and General Manager will inform the Board and devise a funding plan which may include using the Section 115 Trust funds.

Goal 2: Continue to provide fiscally sound services to the taxpayers, ratepayers, and residents of the District. Long-term financial sustainability will be addressed through long-term financial planning efforts, maintaining appropriate reserve levels, and employing prudent practices in governance, management, budget administration, and financial reporting. The strategies set forth below are just some examples of actions the Board may consider to maintain long-term Pension Plans solvency. Before executing any of the strategies below, careful consideration shall be made so that the resulting transactions do not adversely impact the liquidity, budget flexibility and general operations of the District while also maintaining the District's reserve policies per the General Fund Reserve Policy 2010 and Enterprise Funds Unrestricted Net Position and Reserve Policy 2015.

- Additional Discretionary Payments (ADPs) – ADPs may be deposited with CalPERS at any time. Within the constraints of this Policy and authorization by the Board, the District may make ADPs to CalPERS to achieve one or more of the three objectives in Goal 1 above.

- Restructuring UAL Payment Schedule – The District may also consider full or partial restructuring of the UAL payment schedule to achieve one or more of the Goal 1 objectives above including preserving future financial flexibility or avoiding slow or negative amortization.

- Section 115 Trust funding – To preserve financial liquidity and budget flexibility the District may make contributions to a Section 115 Trust. One of the primary purposes of the Section 115 Trust is to function as a "Pension Stabilization" fund acknowledging the CalPERS investment portfolio is volatile, the Funded Status can swing dramatically from one year to the next and may result in future budgetary challenges.

- Other options for funding the UAL include using a portion of annual budget surplus, if available, annual budget allocations, or other means as authorized by the Board.

Goal 3: Provide regular review and ensure transparency of Pension Plans funding. The Policy is intended to make all relevant information readily available to the Board, employees, and the public to identify Policy goals, improve the quality of decisions, and to demonstrate a commitment to long-term financial planning. The District will demonstrate accountability and transparency by communicating all of the information necessary for assessing the District's progress toward meeting its pension funding obligations through the following actions:

- Annually report to the Finance Committee on the most recent CalPERS valuation report highlighting changes in assumptions, discount rates, and investment returns, and the District's Funded Status. Also prepare a five-year Funded Status trend as of the most recent actuarial valuation year and a projected Funded Status estimate for the succeeding valuation year once CalPERS publishes its most recent investment returns.

- During the annual budget process report to the Board on the following:
  - The amount and change in the annual UAL and the Employer's Normal Cost
  - Recommendation on additional contributions to fund a 115 Trust and/or ADP directly to CalPERS
  - Progress on the Funded Status targets
  - Report on any other significant issues associated with funding the Pension Plans in a stable and equitable manner

- During the annual Audit presentation, staff will address the impact of the annual implementation of GASB 68. The primary objective of GASB 68 is to improve accounting and financial reporting by state and local governments for pensions.

Staff will monitor changes to and expansions of pension funding best practices, as well as any additional guidance provided by the Government Finance Officers Association that relates to the funding of defined benefit pensions. Staff will return to the Board with modifications to this Policy as needed.

End Policy