



Yorba Linda Water District

Policies and Procedures

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Applicability: District Wide

POLICY: PENSION RATE STABILIZATION PROGRAM AND OTHER POST-EMPLOYMENT FUNDING

1.0 GENERAL POLICY

The purpose of this Pension Rate Stabilization Program (PRSB) and Other Post-Employment Benefits (OPEB) Funding Policy ("Policy") is to establish a methodology and a process for funding current and future costs associated with the District's contractual obligations to provide pension and retiree medical benefits as set forth in the District's personnel rules and regulations.

2.0 ADOPTION AND IMPLEMENTATION

District Board of Directors are responsible for adopting the Pension Rate Stabilization Program (PRSP) and Other Post-Employment Benefits (OPEB) Funding Policy and for approving any significant revision. The General Manager, or his/her designee, is responsible for developing administrative procedures, as needed, to implement the Policy. In this role, the General Manager, or his/her designee, is authorized to make minor administrative changes in the Policy as long as they are intended to carry out the purpose of this Policy and will not have any significant policy impact. The Board of Directors will review and approve this policy via resolution, as needed, to ensure it meets the current and future needs of the District.

3.0 INITIAL SETUP

The District shall establish an Internal Revenue Service Code Section 115 approved irrevocable trust to achieve a higher rate of return on investments than that earned on the pooled investment portfolio or the Local Agency Investment Fund. Once the District transfers funds into such a trust, they can only be utilized for payment of employee pension or OPEB costs. After the trust is set up with Public Agency Retirement Services (PARS), funds will be transferred over to the new combination Pension/OPEB Trust and shall be allocated entirely to the PRSP OPEB account.

The following outlines the governance and administration of the proposed Trust:

- District Board of Directors have the authority to establish the Trust and define policies for the administration of the Trust funds.
- District General Manager and staff have overall responsibility for the Trust funds and will develop and manage procedures in accordance with the District Board of Director's adopted policies.
- Trust Administrator, PARS, keeps plan documents current to ensure that they reflect the substantive plan and provides ongoing consulting, reporting and plan accounting records.
- Trustee, currently US Bank, will be the plan's trustee and custodian and will safeguard the assets in the Trust, hold the investment securities for safekeeping and make disbursements on request.
- Investment Manager, currently Highmark Capital Management, will recommend investment portfolio allocations based upon the Pension/OPEB Trust Funds' adopted investment policies and manage those assets accordingly.

4.0 TRUST ADMINISTRATOR

Public Agency Retirement Services (PARS) has established a multiemployer irrevocable trust in compliance with the requirements of Section 115 of the Internal Revenue Code. While it is a multi-employer trust, each employer's contributions benefit only its own employees. There is no sharing of either liability or investment earnings, and separate employer accounts are maintained. PARS serves as the administrator of the Trust

5.0 TRUSTEE

Any contributions made to the program are held and invested by a trustee. The trustee duties include:

- Safeguarding assets for the benefit of retirees;
- Providing oversight protection of the investments;
- Custodian of the assets
- Disbursing funds to pay for pension costs and/or retiree healthcare premiums

6.0 INVESTMENT MANAGER

Investment Manager assists the District with selecting investment strategy depending on what rate of return the District expects to earn and level of risk tolerance the District is willing to take. Investment Manager provides annual review of the investment portfolio and asset allocation as well as takes on fiduciary responsibility for the District's pension and OPEB assets management.

7.0 ASSET ALLOCATION INVESTMENT STRATEGY

PARS provides flexibility to the District in the selection of the investment strategy for its funds in the Trust, giving the District control on target yield and level of risk on its investments. Within the Trust, the District has the option of pre-funding either or both of the Pension and OPEB accounts. In either case, the District has the ability to select one of five Investment Options that best suits its desired or

expected return on its investments in the Trust. Each Investment Option allocates the assets in varying investment combinations of equity, fixed income, and cash. With each Investment Option, as the expected rate of return increases so does the assumed risk.

The Asset Allocation Strategies and the corresponding Investment Options currently available are:

Strategy	Equity	Fixed Income	Cash
Conservative	5% - 20%	60% - 95%	0% - 20%
Moderately	20% - 40%	50% - 80%	0% - 20%
Moderate	40% - 60%	40% - 60%	0% - 20%
Balanced	50% - 70%	30% - 50%	0% - 20%
Capital Appreciation	65% - 80%	10% - 30%	0% - 20%

The District General Manager, or his/her designee, in coordination with the District Treasurer and Investment Manager will select the most appropriate investment option for each account (Pension and OPEB) in the Trust.

This Policy recognizes that there will be investment market place volatility and that actual economic and demographic experience will differ from assumed experience. Accordingly, this Policy is intended to provide flexibility to smooth such volatility and experience in a reasonable, systematic and financially sound manner. The selected investment strategy will be reviewed by the Board annually

8.0 ANNUAL CONTRIBUTIONS

In order to establish realistic and appropriate thresholds for annual contributions, the District adopts the following requirement for contributions to be proportionate between Water and Sewer Funds in any given fiscal year:

Program	Fiscal Year	Minimum	Maximum
Pension Liability	FY19 – FY28	\$436,713	\$1,105,248
OPEB Liability	FY19	\$224,700	\$587,339
OPEB Liability	FY20	\$251,700	\$601,939
OPEB Liability	FY21	\$254,400	\$628,939
OPEB Liability	FY22	\$268,900	\$631,639
OPEB Liability	FY23	\$277,200	\$646,139

Note: FY18 OPEB Obligation (Benefit to Retirees) was \$257,706, as determined by the actuarial valuation report prepared in accordance with the Governmental Accounting Standards Board Statement No. 75. Per North Bay Pensions LLC's Valuation of Retiree Health Benefits Report of GASB 75 Actuarial Valuation Report of July 1, 2017, if the District funds OPEB component of the Trust at the listed levels, the OPEB Trust would be 90% funded by FY23.

9.0 ANNUAL WITHDRAWALS

The purpose of this Pension Rate Stabilization Program (PRSB) and Other Post- Employment Benefits (OPEB) Funding Policy ("Policy") is to establish a methodology and a process for funding current and future costs associated with the District's contractual obligations to provide pension and retiree medical benefits as set forth in the District's personnel rules and regulations.

	Minimum	Maximum
Pension	\$0	CalPERS Annual Required Contribution
OPEB	\$0	Annual OPEB Obligation

10.0 ACTUARIAL TERM DEFINITIONS

Normal Cost

The District incurs an annual pension retirement obligation for current employees and an OPEB retirement obligation for current employees hired on or prior to December 8, 2011. The ongoing cost for pension and OPEB earned by current employees during the current year is referred to as the “normal” cost.

Actuarial Present Value of Projected Benefit Payments (APVPBP)

The actuarial valuation calculates an actuarial present value of projected benefit payments (APVPBP) as of the valuation date. The APVPBP represents the amount the District would theoretically need to set aside at this time to fully fund all future benefits for former and existing employees.

Total OPEB Liability (TOL)

The TOL is the portion of the APVPBP which has been “earned” by employees based on past year of service (i.e. benefits allocated to past years of service).

Plan Fiduciary Net Position (FNP)

The FNP is equal to the value of assets that have been accumulated in an irrevocable trust for the benefits, plus the remaining unrecognized deferred outflows and inflows of resources relating to OPEB.

Net OPEB Liability or Asset (NOL)

The NOL is the excess of the Total OPEB Liability over the FNP. At the end of each fiscal year, beginning June 30, 2018, the District must show a liability equal to the NOL.