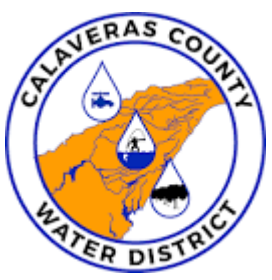


# Calaveras County Water District

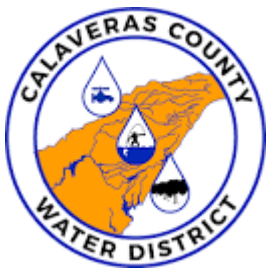
## Retiree Health Trust Fund Investment Strategies

August 20, 2024



# Retiree Health Trust Fund

- The District sponsors a single employer defined Other Postemployment Benefit Plan (OPEB) that provides retiree health benefits, such as medical, prescription drug, dental and vision coverage at retirement.
- Under this program the District maintains an IRS Section 115 trust with Public Agency Retirement Services (PARS).
- U.S. Bank is the trustee and PFM Asset Management (PFM) manages our investments.



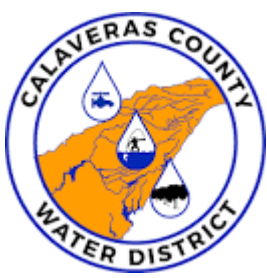
# Retiree Health Trust Fund

- At the June 26 Board meeting GovInvest presented the District's GASB 75 Disclosures for the fiscal year Ending June 30, 2024, with the following findings:
  - The District's Net OPEB Liability decreased from \$8,175,039 as of June 30, 2022, to \$5,946,368 as of June 30, 2023. This decrease can be attributable to a combination of several factors, including:
    - Better actual asset performance compared to expected.
    - Favorable actual demographic experience that is offset by slightly higher healthcare cost increase than expected.
  - The trust's funding deficiency is \$410,000



# Retiree Health Trust Fund

- Although the Net OPEB Liability experienced a \$2.2 million decrease in 2023, it is still \$3.98 million higher than the \$2.0 million in 2021.
- The primary reason for the increase in the Net OPEB Liability was a change in the discount rate, which is the expected rate of return on the trust's investments.
- Lowering the discount rate reduces the amount of future assets available for OPEB expenses and in turn increases the Net OPEB Liability. In 2021 the District lowered the discount rate from 7.0% to 6.0%.
- The Net OPEB Liability appears in the District's Audited Financial Statements (AFS) as a Non-Current Liability in the Statement of Net Position.



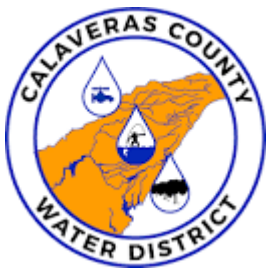
CALAVERAS COUNTY WATER DISTRICT

STATEMENT OF NET POSITION - PROPRIETARY FUNDS (Continued)

June 30, 2023

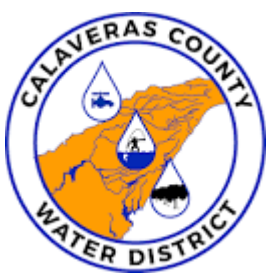
(With Prior Year Data for Comparative Purposes Only)

|  | Business-type Activities - |                      | Totals for                |                       |
|--|----------------------------|----------------------|---------------------------|-----------------------|
|  | Enterprise Funds           |                      | Comparative Purposes Only |                       |
|  | Water                      | Sewer                | 2023                      | 2022                  |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION              |                            |                      |                           |                       |
| CURRENT LIABILITIES  |                            |                      |                           |                       |
| Accounts payable and accrued expenses                                    | \$ 1,953,126               | \$ 1,860,182         | \$ 3,813,308              | \$ 3,346,774          |
| Deposits payable   | 262,233                    | 5,923                | 268,156                   | 463,233               |
| Accrued interest payable   | 261,003                    | 125,222              | 386,225                   | 150,350               |
| Current portion of long-term liabilities                                 | 1,824,967                  | 757,294              | 2,582,261                 | 2,620,189             |
| <b>TOTAL CURRENT LIABILITIES</b>   | <b>4,301,329</b>           | <b>2,748,621</b>     | <b>7,049,950</b>          | <b>6,580,546</b>      |
| NONCURRENT LIABILITIES   |                            |                      |                           |                       |
| Unearned revenue   | 261,681                    | 17,338               | 279,019                   | 265,793               |
| Interfund loans  | 303,139                    | 645,746              | 948,885                   | 1,585,142             |
| Retention payable  | 367,012                    | 249,807              | 616,819                   | 234,290               |
| Noncurrent portion of long-term liabilities                              | 29,333,850                 | 11,713,843           | 41,047,693                | 42,901,021            |
| Net pension liability  | 6,211,039                  | 2,297,234            | 8,508,273                 | 422,876               |
| Net other postemployment benefits liability                              | 5,967,778                  | 2,207,261            | 8,175,039                 | 2,008,651             |
| <b>TOTAL NONCURRENT LIABILITIES</b>                                      | <b>42,444,499</b>          | <b>17,131,229</b>    | <b>59,575,728</b>         | <b>47,417,773</b>     |
| <b>TOTAL LIABILITIES</b>   | <b>46,745,828</b>          | <b>19,879,850</b>    | <b>66,625,678</b>         | <b>53,998,319</b>     |
| DEFERRED INFLOWS OF RESOURCES  |                            |                      |                           |                       |
| Pension plan   | 1,169,002                  | 432,371              | 1,601,373                 | 2,459,571             |
| Other postemployment benefits  | 1,099,921                  | 406,820              | 1,506,741                 | 3,056,656             |
| Leases   | 587,386                    | 217,252              | 804,638                   | 826,796               |
| <b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>                               | <b>2,856,309</b>           | <b>1,056,443</b>     | <b>3,912,752</b>          | <b>6,343,023</b>      |
| NET POSITION   |                            |                      |                           |                       |
| Net investment in capital assets   | 79,420,806                 | 42,297,094           | 121,717,900               | 115,597,923           |
| Restricted for expansion and construction                                | 11,995,529                 | 13,003,579           | 24,999,108                | 26,697,854            |
| Restricted for grant programs  |                            |                      |                           | 4,516                 |
| Unrestricted   | 3,016,046                  | (2,217,991)          | 798,055                   | 6,179,541             |
| <b>TOTAL NET POSITION</b>  | <b>94,432,381</b>          | <b>53,082,682</b>    | <b>147,515,063</b>        | <b>148,479,834</b>    |
| <b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b> | <b>\$ 144,034,518</b>      | <b>\$ 74,018,975</b> | <b>\$ 218,053,493</b>     | <b>\$ 208,821,176</b> |



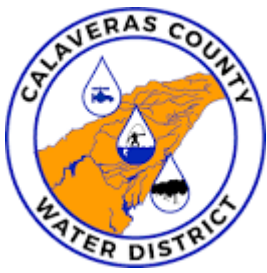
# Retiree Health Trust Fund

- In comparison to FY 2021-22, the \$6.0 million increase in our Net OPEB Liability plus the Net Pension Liability (PERS) added a total \$14.3 million to our Non-Current Liabilities.
- The investment strategies, discount rate and investment returns for the Net Pension Liability are controlled by PERS.
- The District's one tool to help lower the pension liability is to make additional payments to reduce our Unfunded Accrued Liability (UAL), which stands at \$10.5 million.



# Retiree Health Trust Fund

- The District has options to mitigate the Net OPEB Liability, including making additional contributions to the trust (\$410,000), or moving from a Moderate asset allocation to a Balanced asset allocation strategy.
- A Balanced allocation has a greater percentage of investments in equities and the potential for a higher rate of return.
- However, it does come with additional investment risk and potential losses as it is expected to witness more volatility over a market cycle, the incremental increase in risk was modest.



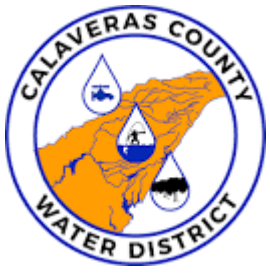
# Asset Allocation Summary

|                                | PARS Conservative | PARS Moderately Conservative | PARS Moderate | PARS Balanced | PARS Capital Appreciation |
|--------------------------------|-------------------|------------------------------|---------------|---------------|---------------------------|
| <b>Equity</b>                  | <b>15.0%</b>      | <b>30.0%</b>                 | <b>50.0%</b>  | <b>60.0%</b>  | <b>75.0%</b>              |
| Domestic Equity                | 11.5%             | 23.0%                        | 39.0%         | 47.0%         | 57.5%                     |
| International Developed Equity | 2.0%              | 4.0%                         | 6.0%          | 7.0%          | 10.3%                     |
| Emerging Markets Equity        | 1.0%              | 2.0%                         | 3.3%          | 4.0%          | 5.3%                      |
| REITs                          | 0.5%              | 1.0%                         | 1.8%          | 2.0%          | 2.0%                      |
| <b>Fixed Income</b>            | <b>80.0%</b>      | <b>65.0%</b>                 | <b>45.0%</b>  | <b>35.0%</b>  | <b>20.0%</b>              |
| Short-Term Bonds               | 25.8%             | 14.0%                        | 10.0%         | 6.8%          | 3.0%                      |
| Core Fixed Income              | 52.3%             | 49.3%                        | 33.5%         | 27.0%         | 16.0%                     |
| High Yield                     | 2.0%              | 1.8%                         | 1.5%          | 1.3%          | 1.0%                      |
| <b>Cash</b>                    | <b>5.0%</b>       | <b>5.0%</b>                  | <b>5.0%</b>   | <b>5.0%</b>   | <b>5.0%</b>               |

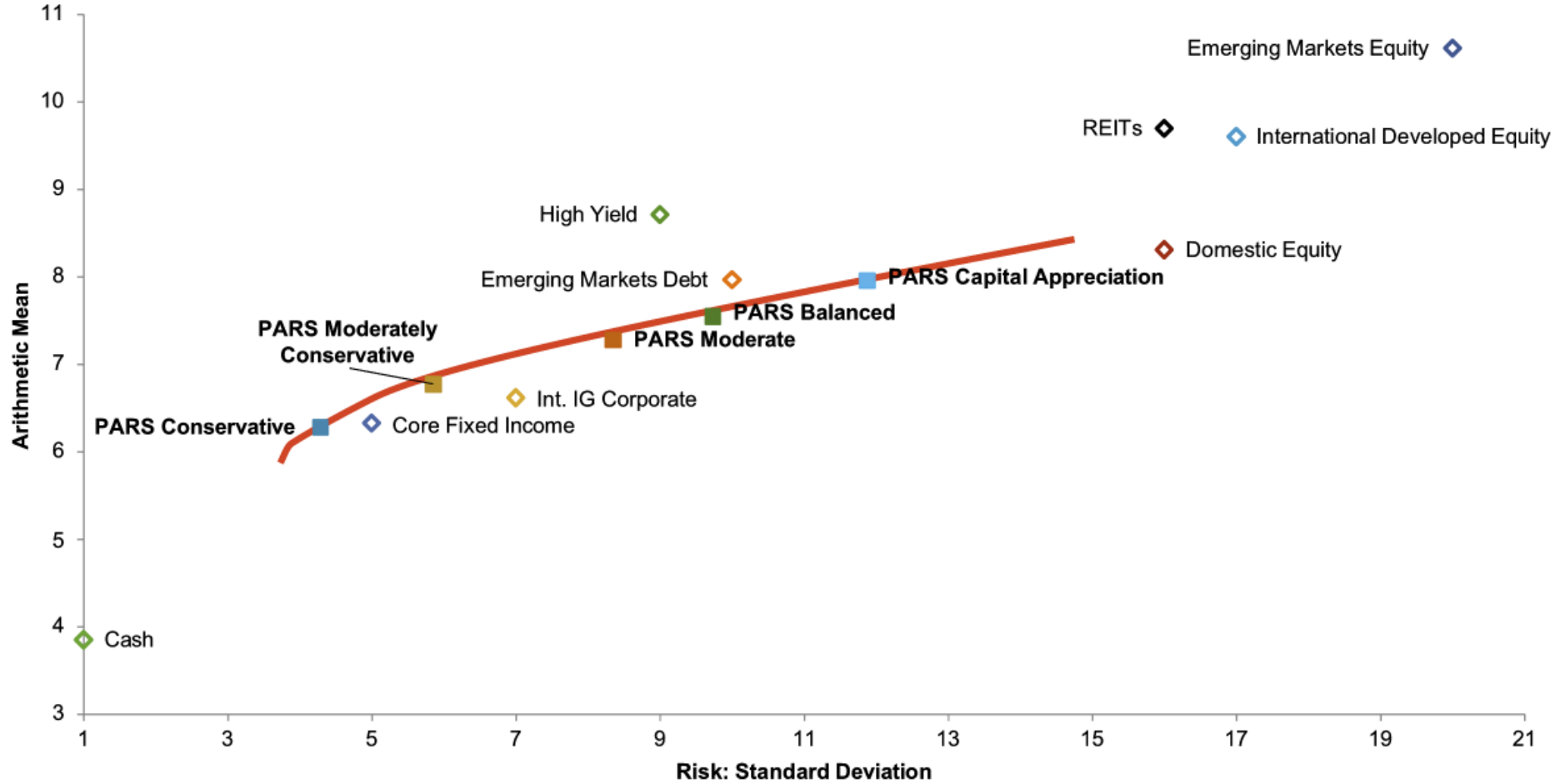
| <b>Intermediate-Term (5 Years)</b> |      |      |      |      |       |
|------------------------------------|------|------|------|------|-------|
| Expected Return                    | 6.2% | 6.7% | 7.0% | 7.2% | 7.5%  |
| Standard Deviation                 | 4.3% | 5.9% | 8.3% | 9.7% | 11.9% |
| Return / Standard Deviation        | 1.44 | 1.14 | 0.84 | 0.74 | 0.63  |
| <b>Long-Term (30 Years)</b>        |      |      |      |      |       |
| Expected Return                    | 5.0% | 5.6% | 6.3% | 6.6% | 7.1%  |
| Standard Deviation                 | 4.3% | 5.9% | 8.3% | 9.7% | 11.9% |
| Return / Standard Deviation        | 1.17 | 0.97 | 0.75 | 0.68 | 0.60  |





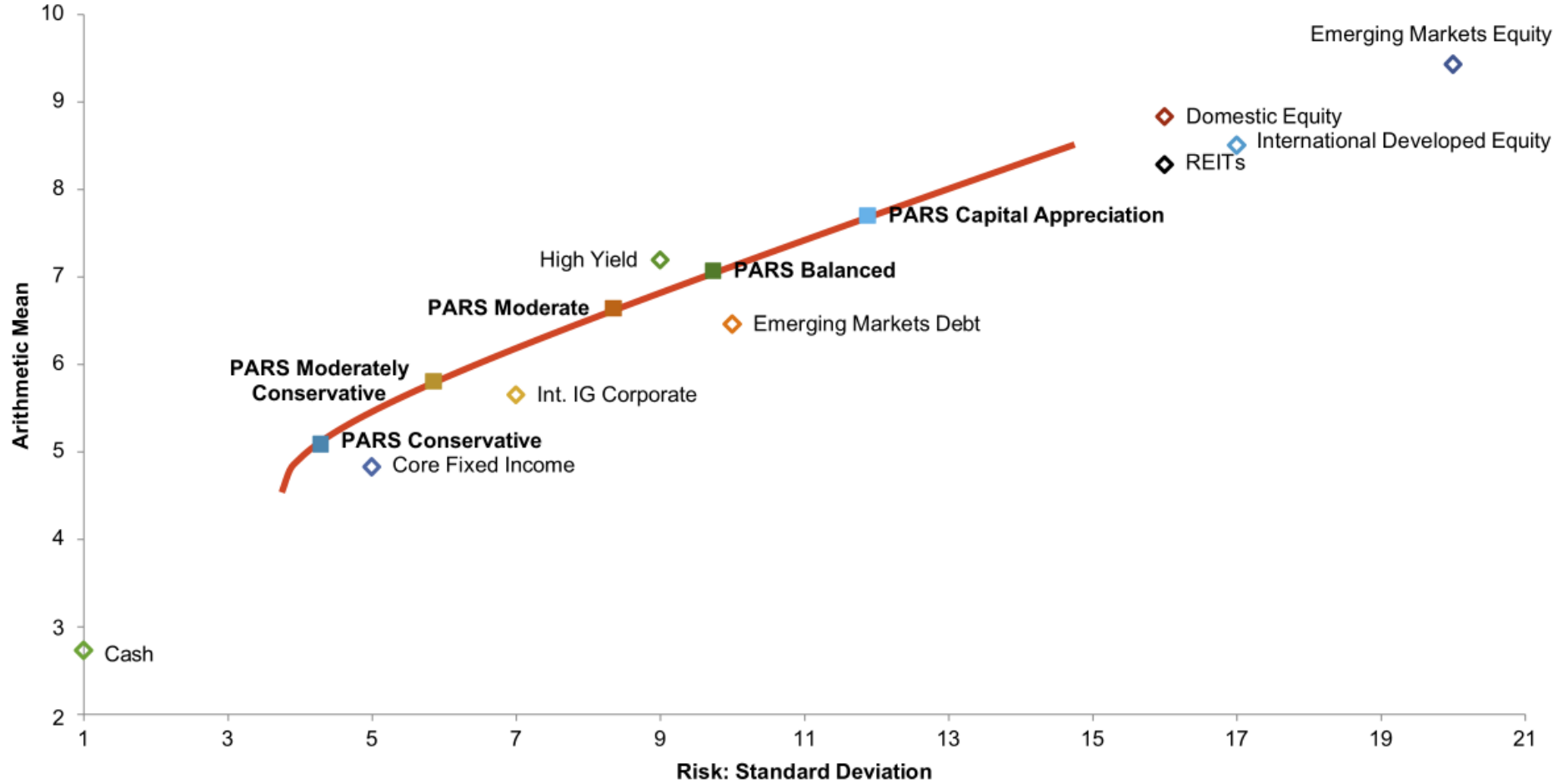


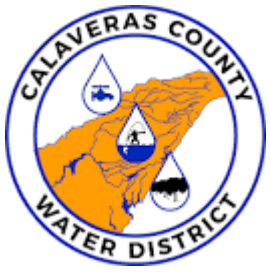
# Efficient Frontier (Intermediate-Term)



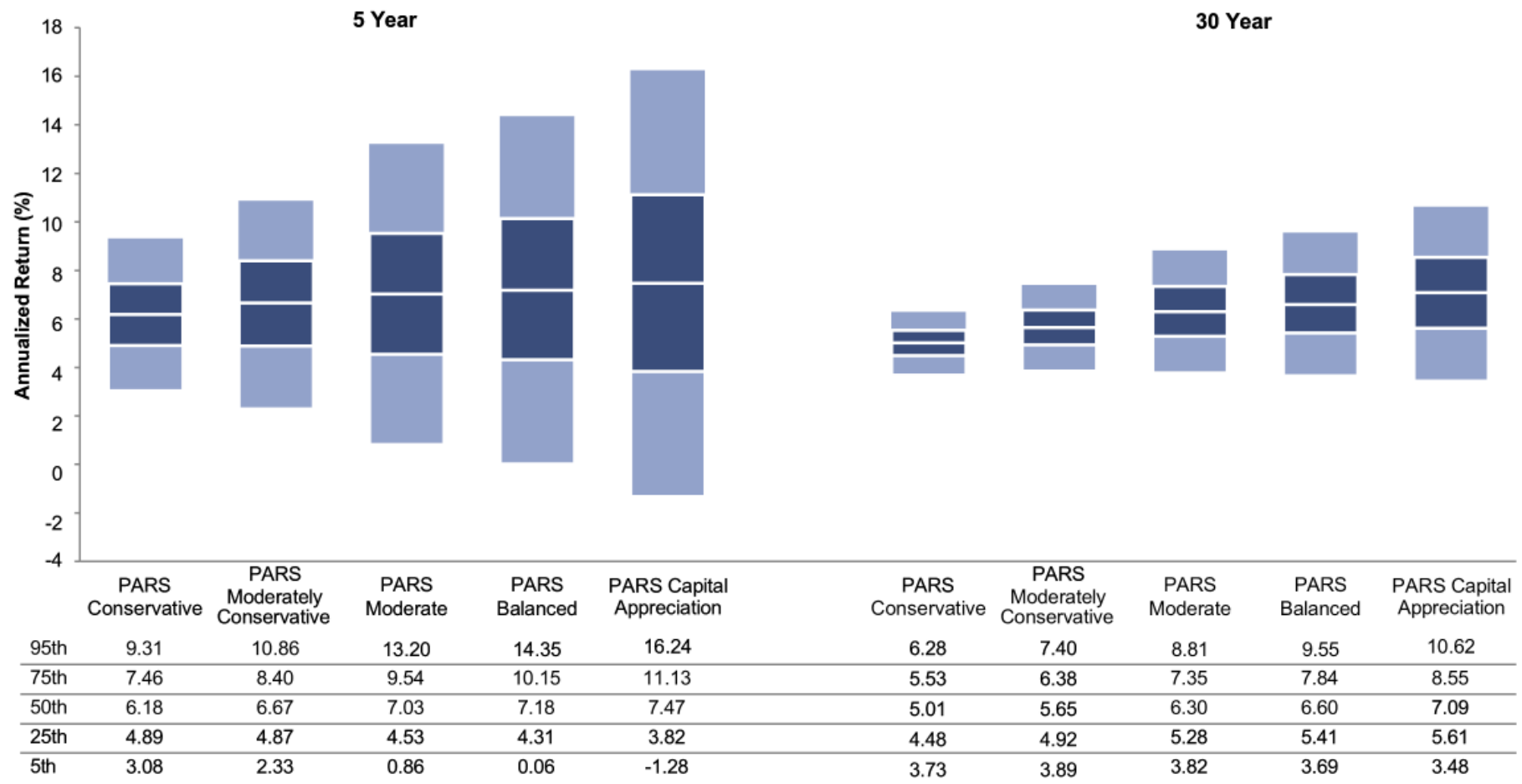


# Efficient Frontier (Long-Term)





# Return Projections (Intermediate and Long-Term)





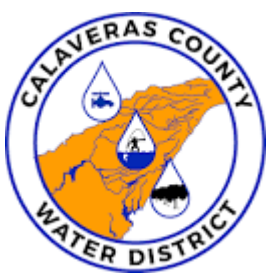
# Retiree Health Trust Fund

- Another factor are the District's other funding needs, operating and capital. The District has a significant backlog of water and wastewater capital projects.
- Although loans can help provide funding for capital projects, loans require adequate funding for debt service and a satisfactory debt service coverage ratio.
- There will be a time when the District pushes against its debt limits. When this happens, shifting limited rate revenue to backfill the Net OPEB Liability could reduce the availability of funds for the District's CIP.



# Retiree Health Trust Fund

- If the District changes from a Moderate to Balanced, and if the trust fund can achieve the projected returns of the Balanced asset allocation, the increase in the discount rate has the potential to fulfill the following goals:
  - Use current assets in the retiree health trust to grow the necessary funds to meet our OPEB obligations.
  - Minimize annual contributions to the trust fund.
  - Reduce our Net OPEB Liability.
  - Preserve funding for the district's operations and capital programs.
- However, if the Balanced asset allocation cannot meet its projected returns, then the discount rate cannot increase, and we will still have a Net OPEB Liability that will appear in the District's Audited Financial Statements.
- Furthermore, if there are losses, the Retiree Health Trust will be negatively impacted.



# Next Steps

- Questions
- Recommendation