



Agenda Date: 4/2/2018
Agenda Placement: 4B

Napa Sanitation District Finance Committee Board Agenda Letter

TO: Finance Committee
FROM: Jeff Tucker - Director of Administrative Services/CFO
NS-Administration
REPORT BY: Jeff Tucker, Director of Administrative Services/CFO - 707-258-6000
SUBJECT: Provide Direction on Funding Policy for Pensions and OPEB

RECOMMENDATION

Provide direction on funding policy for pensions and OPEBs.

EXECUTIVE SUMMARY

Staff will present a draft funding policy for addressing pension and OPEB liabilities. Staff will ask specific direction from the Committee regarding whether to make any additional optional UAL payments to CalPERS directly, or to establish a separate Trust account.

To determine whether to pay CalPERS directly or set up a separate trust account, the following should be considered:

- | Payments made to Pension Trust would not technically reduce NapaSan Net Pension Liability on its balance sheet. The value of the Trust would appear on the Statement of Net Position as Restricted Cash.
- | Trust assets would be invested in open market securities and other instruments, similar to the asset allocation classifications in which CalPERS invests, and would be subject to the same potential investment gains and losses.
- | Payments made into the Trust would not have any impact on the minimum annual contribution to CalPERS, but NapaSan could use assets accumulated in the Trust to help pay for the minimum annual contribution.
- | With a Trust, NapaSan could help to set the investment strategy of the assets (from five risk tolerance levels). With CalPERS, there is only the CalPERS investment strategy available.

There is currently one trust option available to NapaSan, Public Agency Retirement Services (PARS), which is an offshoot of the California Special Districts Association. Over the past 5 years, PARS has had annualized returns of 8.54% on investments in the "Balanced" risk category (50-70% equity, 30-50% fixed income, 0-20% cash). This

risk category is the second most aggressive option, and is most comparable to the CalPERS investment strategy. This return compares to CalPERS annualized investment returns of 8.8% during roughly the same period. PARS administrative and investment fees would be 0.60% of assets under management.

	Equity %	CalPERS 5-Year Return (June 30)	PARS 5-Year Return (Dec 31)	PARS fees
Capital Appreciation	65-85%		10.08%	0.60%
Balanced	50-70%	8.8%	8.54%	0.60%
Moderate	40-60%		7.42%	0.60%
Moderately Conservative	20-40%		5.26%	0.60%
Conservative	5-20%		3.73%	0.60%

FISCAL IMPACT

Is there a Fiscal Impact? No

ENVIRONMENTAL IMPACT

ENVIRONMENTAL DETERMINATION: The proposed action is not a project as defined by 14 California Code of Regulations 15378 (State CEQA Guidelines) and therefore CEQA is not applicable.

BACKGROUND AND DISCUSSION

In May 2017, the Board updated its Strategic Plan to include Objective 2B: Evaluate long-term liabilities, including pension liability and OPEB liability, and develop policy options for Board consideration.

At the March 21, 2018 Board meeting, the Board provided policy direction regarding whether to make additional payments toward NapaSan's pension liability and the sources of funding for such payments.

SUPPORTING DOCUMENTS

A . Draft Financial Policy for Pensions and OPEB

Napa Sanitation District Finance Committee: Approve

Reviewed By: Jeff Tucker