

Staff Report

TO: Board of Directors

FROM: Jennifer Hanson, General Manager
Sandra Dunlap, Finance Director

DATE: October 23, 2024

SUBJECT: Participation in the California Employers' Pension Prefund Trust (CEPPT)

FINANCE

RECOMMENDATION:

Adopt a resolution:

1. Authorizing participation in the Section 115 California Employers' Pension Prefunding Trust (CEPPT)
2. Authorize the General Manager or designee to execute all documents necessary for participation in the CEPPT
3. That the Board of Directors delegates authority to request disbursements to the General Manager or designee
4. Authorize the initial CEPPT contribution of \$2,000,000 million

BACKGROUND:

As part of the District's Strategic Plan adopted on April 12, 2023, Priority #4, Goal #5 was to establish a long-term plan to help manage the growing Unfunded Accrued Liability (UAL) for Pension.

The District is a member of the CalPERS pension system. As such, the District is subject to CalPERS funding policies, investment projections, actual performance, and actuarial assumptions, each of which impacts the level of funding commitment that is required on an annual basis and the level of unfunded liability that is carried by the District. Over the past decade, pension costs (both annual and long-term liabilities) have increased. In the efforts to manage pension costs, the State passed

the Public Employees' Pension Reform Act (PEPRA) which created new pension formulas that would be applied across all CalPERS member jurisdictions to new employees; the old formulas would apply only to employees and retirees who had already vested in the system (classic employees). The budgetary impacts of PEPRA will become more tangible in a decade or two.

Currently the District pays the annual UAL in July as a lump sum to capture a discount by paying the entire year up front. In addition, the District plans to start a soft "Fresh Start" by annually reviewing the financial position and if funding is available the District will pay an ADP (additional discretionary payment) based on the 15-year amortization. This is in lieu of formally re-amortizing to a 15-year amortization and will allow more flexibility rather than committing to the higher payment.

UAL Fresh Start Program

Date	Current Amortization Schedule		Alternative Schedules			
	Balance	Payment	15 Year Amortization		10 Year Amortization	
			Balance	Payment	Balance	Payment
6/30/2025	61,832,511	5,516,927	61,832,511	6,486,457	61,832,511	8,440,102
6/30/2026	60,335,706	5,894,454	59,333,752	6,486,457	57,314,776	8,440,102
6/30/2027	58,346,963	6,187,093	56,665,077	6,486,457	52,489,835	8,440,102
6/30/2028	55,920,561	6,444,851	53,814,933	6,486,457	47,336,798	8,440,102
6/30/2029	53,062,787	6,596,893	50,770,979	6,486,457	41,833,354	8,440,102
6/30/2030	49,853,555	6,734,370	47,520,036	6,486,457	35,955,676	8,440,102
6/30/2031	46,284,022	6,210,368	44,048,029	6,486,457	29,678,316	8,440,102
6/30/2032	43,013,286	6,176,021	40,339,925	6,486,457	22,974,095	8,440,102
6/30/2033	39,555,639	5,861,155	36,379,670	6,486,458	15,813,987	8,440,103
6/30/2034	36,188,266	5,746,750	32,150,117	6,486,457	8,166,991	8,440,102
6/30/2035	32,710,142	5,569,265	27,632,955	6,486,458		
6/30/2036	29,178,926	5,233,337	22,808,625	6,486,457		
6/30/2037	25,754,748	5,060,396	17,656,242	6,486,457		
6/30/2038	22,276,448	4,874,991	12,153,497	6,486,458		
6/30/2039	18,753,229	4,746,747	6,276,564	6,486,458		
6/30/2040	15,122,966	4,670,138				
6/30/2041	11,325,017	3,785,444				
6/30/2042	8,183,088	3,445,877				
6/30/2043	5,178,428	4,503,657				
6/30/2044	876,299	905,603				
6/30/2045						
6/30/2046						
6/30/2047						
6/30/2048						
6/30/2049						
Total		104,164,337		97,296,859		84,401,021
Interest Paid		42,331,826		35,464,348		22,568,510
Estimated Savings				6,867,478		19,763,316

Pension costs continue to rise. Since 2013, the Unfunded Accrued Liability (UAL) has grown, resulting primarily from CalPERS recognition that its discount rate (i.e. rate of expected return on investment) had been overly optimistic. The UAL increases when CalPERS actual investment performance does not meet expectations.

CalPERS Prefunding Programs

District's CalPERS Pension Plans Funding History

Funding History

The table below shows the recent history of actuarial accrued liability, market value of assets, unfunded accrued liability, funded ratio and annual covered payroll.

Valuation Date	Accrued Liability (AL)	Market Value of Assets (MVA)	Unfunded Accrued Liability (UAL)	Funded Ratio	Annual Covered Payroll
6/30/2013	\$102,575,329	\$68,418,010	\$34,157,319	66.7%	\$10,084,783
6/30/2014	112,319,622	77,516,591	34,803,031	69.0%	10,215,613
6/30/2015	116,484,507	76,509,356	39,975,151	65.7%	11,874,347
6/30/2016	122,263,483	74,462,131	47,801,352	60.9%	12,594,409
6/30/2017	126,977,608	80,401,863	46,575,745	63.3%	13,263,856
6/30/2018	135,815,945	84,775,529	51,040,416	62.4%	14,822,764
6/30/2019	141,485,325	88,420,359	53,064,966	62.5%	15,351,276
6/30/2020	146,058,921	90,749,791	55,309,130	62.1%	16,269,273
6/30/2021	153,952,902	109,982,498	43,970,404	71.4%	15,550,981
6/30/2022	160,057,004	100,046,286	60,010,718	62.5%	15,842,784

CalPERS has the CEPPT Program, which is an Internal Revenue Service (IRS) Section 115 Trust set up for the sole purpose of receiving employer contributions that will pay for pension costs. This program has been around since 2019 and has quickly become popular with many agencies as a prudent financial asset. The program already has \$268 million in assets under management and has over 97 participating agencies, including cities, counties, school districts, and special districts. Section 115 Trusts are used by cities, districts, and counties to reserve funds against pension liabilities. Funds can be transferred from a Section 115 Trust to pay pension costs; they cannot be used for other purposes.

If approved this will be the second trust that the District will establish with CalPERS. In 2009 the Board approved establishment of the District's first trust with CalPERS to fund the District's Other Post Employment Benefit (OPEB) or retirement healthcare benefits.

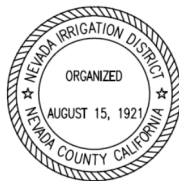
BUDGETARY IMPACT:

With the requested action, staff recommends the District to participate in the California Employers' Pension Prefund Trust (CEPPT) fund with an initial contribution amount of \$2,000,000 in FY 2024.

The financial position of the District will be reviewed each year during the annual budget process if funding is available and warranted for additional contributions on an annual basis be brought to the board for approval.

Attachments (2):

- Presentation
- Resolution 2024-41- Authorizing Participation in the CEPPT



RESOLUTION NO. 2024-41

OF THE BOARD OF DIRECTORS OF THE NEVADA IRRIGATION DISTRICT

APPROVAL AUTHORIZING PARTICIPATION IN THE CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM, CALIFORNIA EMPLOYERS' PENSION PREFUND TRUST

WHEREAS, in 1981 Nevada Irrigation District adopted resolution establishing participation in the California Public Employees' Retirement System (CalPERS); and

WHEREAS, in 2019, CalPERS opened for participation the California Employers' Pension Prefund Trust (CEPPT) fund. It is a Section 115 Employer Pension Contribution prefunding trust that allows state and local public agencies that participate in defined benefit public pension system to voluntarily prefund employer contributions; and

WHEREAS, The District has deemed it to be in the financial interest to open a CEPPT to pre-fund the pension unfunded liability and Future Normal Cost associated with required pension contributions; and

NOW, THEREFORE, BE IT RESOLVED

1. That the Board of Directors hereby approves and directs staff to join the California Employers' Pension Prefund Trust; and
2. That the Board of Directors hereby authorizes the General Manager or designee to execute required documentation for participation in the in the California Employers' Pension Prefund Trust; and
3. That the Board of Directors delegates authority to request disbursements to the General Manager or designee; and
4. That the Board of Directors hereby approves and directs staff to pre-fund the trust with \$2,000,000

* * * * *

PASSED AND ADOPTED by the Board of Directors of the Nevada Irrigation District at a regular meeting held on the 23rd day of October 2024, by the following vote:

AYES:	Directors:
NOES:	Directors:
ABSENT:	Directors:
ABSTAINS:	Directors:
VACANT	Division IV

President of the Board of Directors

Attest:

Secretary to the Board of Directors

California Employers' Pension Prefunding Trust (CEPPT)

Nevada Irrigation District

Outline for Discussion

- Pension Cost Considerations & Outlook
- CalPERS Pension Funding Tools
- CEPPT 115 Trust
 - Investments
 - Administration
- Next Steps

Pension Cost Considerations & Outlook

Cost Considerations

- Normal Cost
 - Ongoing perpetual cost
 - Naturally rises due to payroll & headcount
- Unfunded Accrued Liability (UAL)
 - Exists for most agencies
 - Will reoccur if plan is negative
 - 6.8% interest

Outlook

- Fluctuating volatile costs
- Employers will need to budget more

CalPERS Pension Fund Returns

Period	Assets	Return
30-year at 6/30/2024	\$440B	7.7%
20-year at 6/30/2024	\$440B	6.7%
10-year at 6/30/2024	\$440B	6.2%
5-year at 6/30/2024	\$440B	6.6%
2019 – 20	\$389B	4.7%
2020 – 21	\$469B	21.3%
2021 – 22	\$440B	-7.5%
2022 – 23	\$462B	5.8%
2023 – 24	\$503B	9.3%

District's Miscellaneous CalPERS Pension Plans Summary

Pension Valuation Date	Funded Status	Unfunded Liability (6.8% Interest)	UAL Payment 2024-25	Normal Cost 2024-25	Total Contribution 2024-25	FY PERF Performance
6/30/2020	62.1%	\$55,309,130	\$4,692,139	\$1,695,266	\$6,156,984	4.7%
6/30/2021	71.4%	\$43,970,404	\$4,754,571	\$1,817,814	\$6,572,385	21.3%
6/30/2022	62.5%	\$60,010,718	\$5,322,555	\$1,841,597	\$7,164,152	-7.5%
6/30/2023	62.2%	\$63,630,874	\$5,516,927	\$1,896,358	\$7,413,285	5.8%

District's CalPERS Pension Plans Funding History

Funding History

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6/30/2022	160,057,004	100,046,286	60,010,718	62.5%	15,842,784
6/30/2023	168,528,724	104,897,850	63,630,874	62.2%	16,784,469

CalPERS Pension Funding Tools

CalPERS Available Tools

July UAL Annual Prepayment

“Fresh Start” Re-amortization Schedule

ADP (Additional Discretionary Payment)

CEPPT Sec 115 Prefunding Trust

July UAL Prepayment

	Fiscal Year
Required Employer Contributions	2025-26
Employer Normal Cost Rate	10.40%
<i>Plus</i>	
Unfunded Accrued Liability (UAL) Contribution Amount	\$5,516,927
<i>Paid either as</i>	
1) Monthly Payment	\$459,744
<i>Or</i>	
2) Annual Prepayment Option*	\$5,338,406
<p>The total minimum required employer contribution is the sum of the Plan's Employer Normal Cost Rate (expressed as a percentage of payroll and paid as payroll is reported) and the Unfunded Accrued Liability (UAL) Contribution Amount (billed monthly(1) or prepaid annually(2) in dollars).</p> <p>* Only the UAL portion of the employer contribution can be prepaid (which must be received in full no later than July 31).</p> <p>For Member Contribution Rates see the following page.</p>	

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ADP and 115 Trust

ADP (Additional Discretionary Payment)

- Makes up past underperformance
- Reduces pension UAL
- Liquidity consideration

CEPPT Sec 115 Trust

- Stabilizes future cash flow
- Improves future capacity to pay

Why Prefund Pension Contributions?

Grow assets for future pension contributions (Normal cost, UAL, ADP)

Earn higher than LAIF or County Treasury

Stabilize future budgets

Create rainy day fund and preserve liquidity

Maintain local control

Higher Yielding Investment Potential

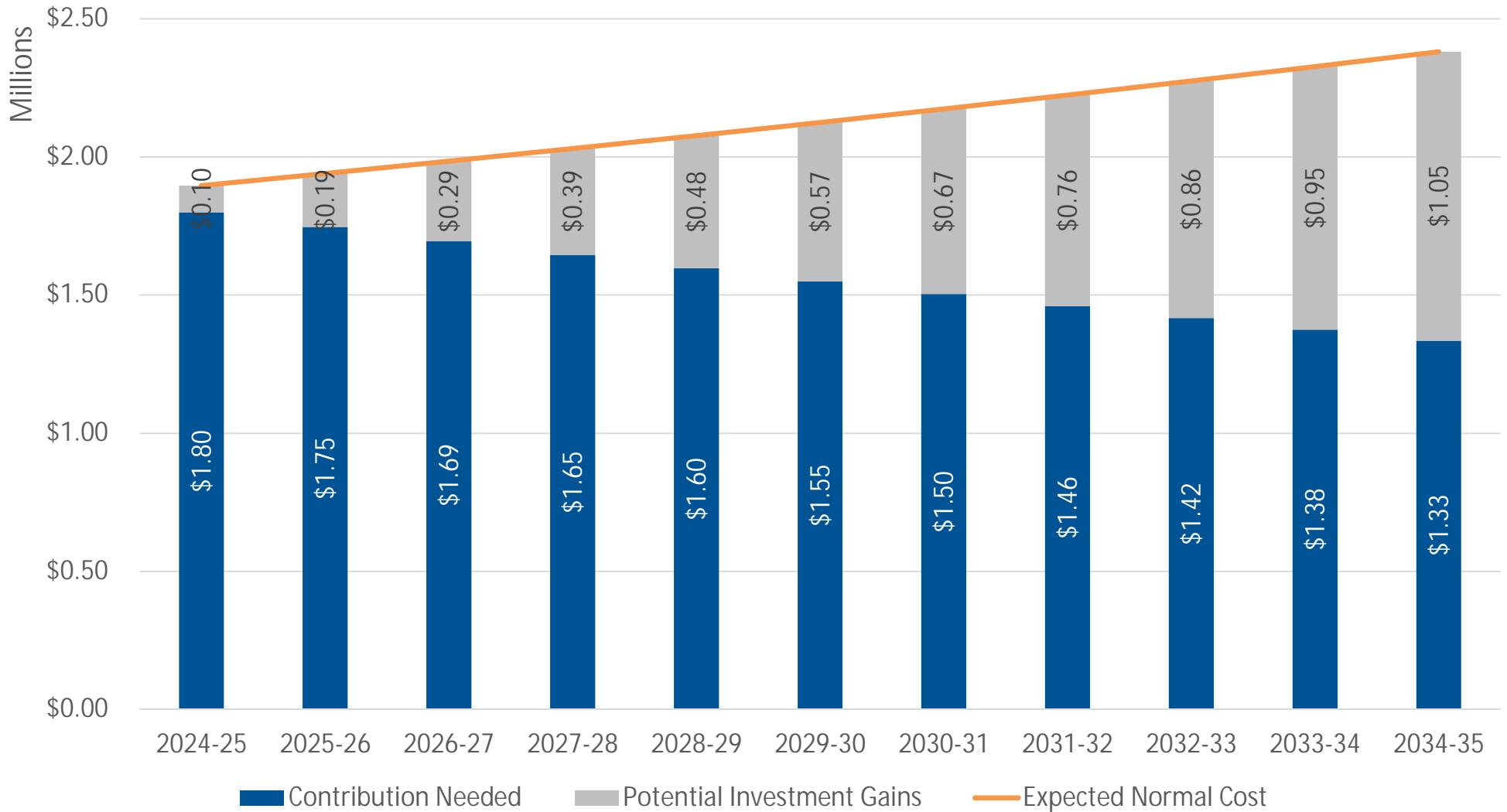
Hypothetical 10 Year Compounding Interest Scenario

Investment Duration (Years)	1	2	3	4	5	6	7	8	9	10
Expected Compounded Annualized Rate of Investment Return	5.4%	5.4%	5.4%	5.4%	5.4%	5.4%	5.4%	5.4%	5.4%	5.4%
Cumulative Expected Compounded Rate of Investment Return	5%	11%	17%	23%	30%	37%	45%	52%	61%	69%
Future Value of \$1	\$1.05	\$1.11	\$1.17	\$1.23	\$1.30	\$1.37	\$1.45	\$1.52	\$1.61	\$1.69
Required Investment Principal Contribution Needed to Generate \$1M	\$949K	\$900K	\$854K	\$810K	\$769K	\$729K	\$692K	\$657K	\$623K	\$591K

Pension Contribution Investment Tools

Portfolios	CalPERS Pension	CEPPT Strategy 1	CEPPT Strategy 2	LAIF
Expected Return	6.8%	5.4%	4.9%	~1%
Risk	11.4%	8.4%	5.9%	Lowest
Time Horizon	Longest Term	Employer Determined		Shortest Term
Liquidity	No	Yes		Yes

Hypothetical Contribution Prefunding Scenario – Estimated Normal Cost



Rainy Day Fund

- Will likely outperform LAIF and earn more interest over time
- Will provide additional income source and allow for greater budgetary stability

Plan	3 Months Pension Cost
Miscellaneous Plan	\$1,853,321

CalPERS IRC Section 115 Trust Funds

California Employers' Retiree Benefit Trust (CERBT - OPEB)

- Voluntarily prefund non-pension, other post-employment benefits (OPEB)
- Established 2007
- 602 employer participants
- ~\$22.3B assets

California Employers' Pension Prefunding Trust (CEPPT - Pension)

- Voluntarily prefund required pension contributions
- Established 2019
- 97 employer participants
- ~\$268M assets

Prefunding Program Employers

629 contracting employers (602 CERBT and 97 CEPPT)



State of California



155 Cities or Towns



9 Counties

83 School Employers



33 Courts



348 Special Districts &
Public Agencies



Investment Management

CEPPT Portfolio Options

Portfolios	CEPPT Strategy 1	CEPPT Strategy 2
Expected Return	5.4%	4.9%
Standard Deviation	8.4%	5.9%

CEPPT Portfolio Details

Asset Classification	Benchmark	CEPPT Pension Strategy 1	CEPPT Pension Strategy 2	Target Range
Global Equity	MSCI All Country World Index IMI (Net)	37%	21%	±5%
Fixed Income	Bloomberg US Aggregate Bond Index	44%	61%	±5%
Real Estate Investment Trusts ("REITs")	FTSE EPRA/NAREIT Developed Index (Net)	14%	9%	±5%
Treasury Inflation Protected Securities (TIPS)	Bloomberg US TIPS Index, Series L	5%	9%	±3%
Cash	91-Day Treasury Bill	-	-	+2%

CERBT & CEPPT Time-weighted Investment Returns

Periods Ended August 31, 2024

CERBT OPEB	Assets	1 Month	3 Months	FYTD	1 Year	3 Years	5 Years	10 Years	ITD
CERBT Strategy 1 (Inception June 1, 2007)	\$19,422,541,229	2.85%	7.18%	5.77%	17.04%	1.78%	7.39%	6.16%	5.59%
Benchmark		2.85%	7.14%	5.76%	16.83%	1.57%	7.14%	5.82%	5.21%
CERBT Strategy 2 (Inception October 1, 2011)	\$2,104,005,564	2.65%	6.86%	5.57%	14.50%	0.35%	5.20%	4.96%	6.59%
Benchmark		2.65%	6.83%	5.56%	14.34%	0.21%	5.02%	4.68%	6.34%
CERBT Strategy 3 (Inception January 1, 2012)	\$820,194,462	2.42%	6.47%	5.28%	12.52%	0.25%	3.68%	3.99%	5.03%
Benchmark		2.43%	6.45%	5.27%	12.39%	0.34%	3.55%	3.74%	4.78%
CERBT Total	\$22,346,741,255								
CEPPT PENSION	Assets	1 Month	3 Months	FYTD	1 Year	3 Years	5 Years	10 Years	ITD
CEPPT Strategy 1 (Inception October 1, 2019)	\$203,369,974	2.43%	6.46%	5.19%	14.36%	1.06%	-	-	5.29%
Benchmark		2.43%	6.48%	5.22%	14.31%	0.90%	-	-	5.19%
CEPPT Strategy 2 (Inception January 1, 2020)	\$64,130,683	2.01%	5.78%	4.63%	11.34%	0.11%	-	-	2.54%
Benchmark		2.02%	5.75%	4.63%	11.29%	0.18%	-	-	2.44%
CEPPT Total	\$267,500,657								

Time weighted return reports the performance of the investment vehicle, not of the employer assets. Returns are gross. Historical performance is not necessarily indicative of actual future investment performance or of future total program cost. Current and future performance may be lower or higher than the historical performance data reported here. Investment return and principal value may fluctuate so that your investment, when redeemed, may be worth more or less than the original cost. The value of an employer's fund shares will go up and down based on the performance of the underlying funds in which the assets are invested. The value of the underlying funds' assets will, in turn, fluctuate based on the performance and other factors generally affecting the securities market.

Maintain Local Control

Choose your preferred portfolio or use both concurrently

Contributions are voluntary and on your schedule

Decide if, and when to liquidate trust assets

- Normal costs, UAL payments, ADPs

CEPPT Employer Controls the Funding Policy

Send in pension reserves

Initial contributions but future contributions undetermined

Additional Discretionary Payments + 115 trust contributions

Ad-hoc, undetermined, future budget cycle

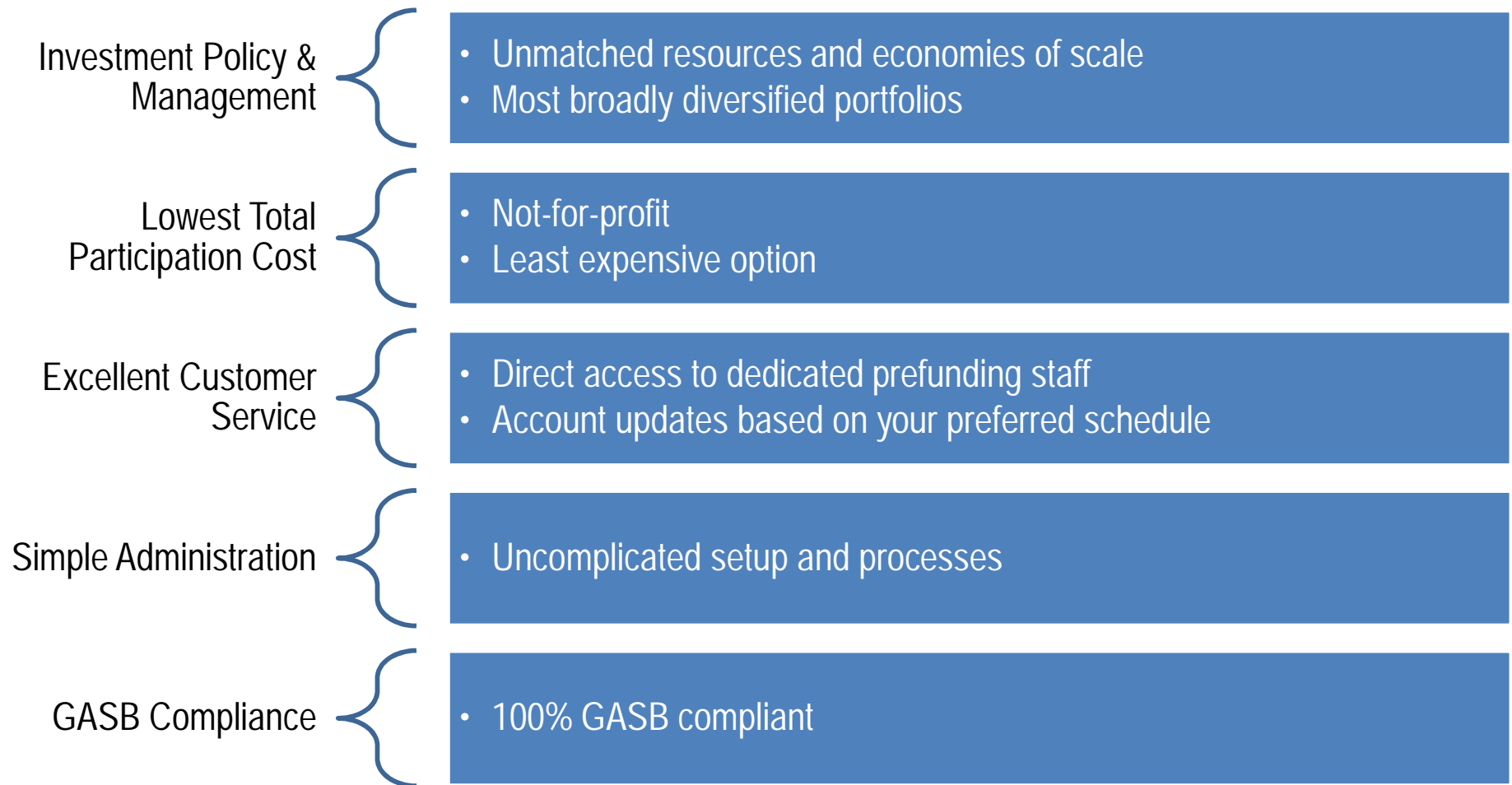
Total Participation Cost Fee Rate

- All-inclusive cost of participation
 - 25 basis points (bps) fee on asset balance
 - Combines administrative, custodial, and investment fees
 - Self-funded and not-for-profit
 - Zero cost to join

Asset Value on Deposit*	All-Inclusive Fee Rate	Annual Cost
\$1,000,000	25 Basis Points (0.25%)	\$2,500

*Asset values shown assume the amount is deposited on the first day of a 12-month calendar year and remains constant the entire 12 months ending on the last day with the exact same amount. No investment gains/losses, or contribution additions/withdrawals are experienced at any time during the 12 months. There are no additional fees of any kind. No set-up, joining, renewal, contribution, disbursement, termination fees. No minimum contribution amount.

Advantages of the CEPPT



Trust Support Services

Contributions

Disbursements

Online Record Keeping Portal

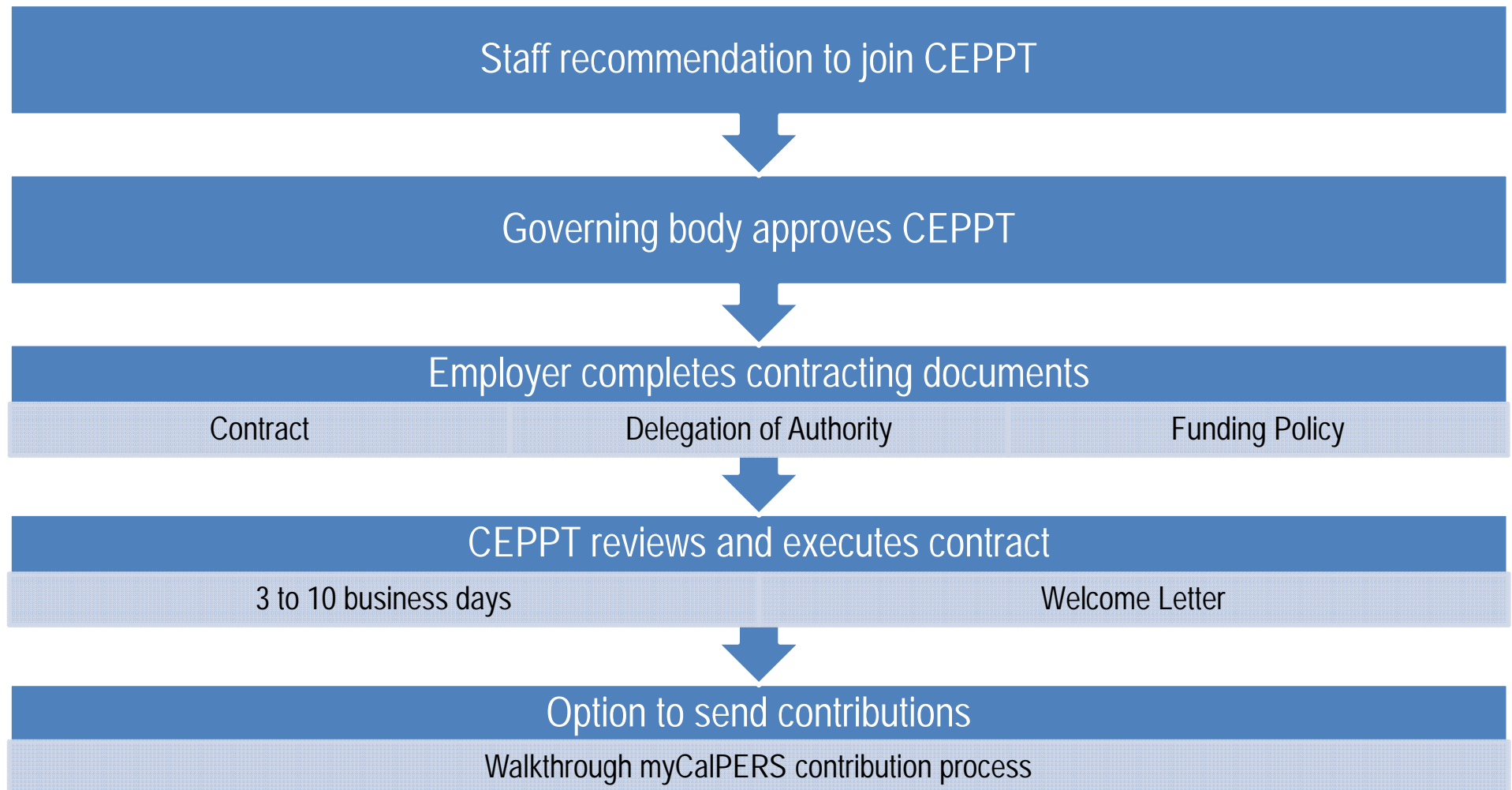
Account Updates

In-person Workshops and Webinars

Statements and Reporting

Strategy Change

Uncomplicated Contracting Process



Contracting Documents

Governing Body

Contract Agreement

Delegation of Authority
to Request Disbursements

Agency

Funding Policy

Next Steps

Continue Pay-As-You-Go Option

- Most expensive approach
- Rely 100% on current & future operating budget
- Increasing pension costs may stress future budget

Setup CEPPT Option

- ✓ Higher investment income than LAIF/Treasury
- ✓ Stabilize future cash flow & reduce budget dependency
- ✓ Rainy day fund
- ✓ Voluntary contributions & retain liquidity

Questions? Where to Get Trust Fund Information?

Name	Title	E-mail	Desk	Mobile
Darren Lathrop	Outreach & Support Manager	Darren.Lathrop@calpers.ca.gov	(916) 795-0751	(916) 291-0391
Lee Lo	Section 115 Trust and 457 Outreach Manager	Lee.Lo@calpers.ca.gov	(916) 795-4034	(916) 612-4128
Therese Luo	Outreach & Support Analyst	Therese.Luo@calpers.ca.gov	(916) 795-2983	(916) 213-2879
Danny Kaufman	Outreach & Support Analyst	Daniel.Kaufman@calpers.ca.gov	(916) 795-8278	(916) 440-3821
Katie Nguyen	Outreach & Support Analyst	Katie.Nguyen@calpers.ca.gov	(916) 795-8248	(916) 715-1911
Colleen Cain-Herrback	Program Manager	Colleen.Cain-Herrback@calpers.ca.gov	(916) 795-2474	(916) 505-2506
Robert Sharp	Assistant Division Chief	Robert.Sharp@calpers.ca.gov	(916) 795-3878	(916) 397-0756

Program E-mail Addresses	Prefunding Programs Webpages
CEPPT4U@calpers.ca.gov – Questions & Document Submittal	www.calpers.ca.gov/ceppt
CERBT4U@calpers.ca.gov - Questions & Document Submittal	www.calpers.ca.gov/cerbt
CERBTACCOUNT@calpers.ca.gov – Access to Online Record Keeping System	www.your-fundaccount.com/calpers/ - Online Record Keeping System