

Call, Notice, and Agenda

SPECIAL MEETING – PERSONNEL COMMITTEE – COUNTY SANITATION DISTRICTS OF LOS ANGELES COUNTY

To be held at the OFFICE OF THE DISTRICT
1955 Workman Mill Road, Whittier, California

For the public to join the meeting virtually, click <https://us02web.zoom.us/j/3397206095> or enter the Meeting ID 339 720 6095 into the Zoom app on your smartphone or computer. Alternatively, you may join by phone by calling (669) 900-9128 and entering the Meeting ID. You may find further information at: <http://www.lacsd.org/agendas>

*Attending via Zoom per AB 2449 – Travel

THE COMMITTEE MAY TAKE ACTION ON ANY AGENDA ITEM LISTED BELOW

WEDNESDAY	October 23, 2024	At 12:00 P.M.
District(s)	Chairperson	
SBC	PIMENTEL	
1	SALEH	
2	WARNER (Committee Chairperson)	
3	SARO	
4	MC OSKER	
5	CERDA	
8	DAVIS-HOLMES	
9	HAHN	
14	PARRIS	
15	BARAKAT	
16	GORDO	
17	BARGER*	
18, 19	TAJ	
20	BISHOP	
21	MOSS	
22	FINLAY	
23	MERLO	
27, NR	HORVATH	
28	DAVITT	
29	WOODS	
SCV	WESTE	

At the call of the Chairperson, a special meeting of the Board of Directors of the Personnel Committee of the County Sanitation Districts of Los Angeles County will be held at the above time and place for the purpose of:

1. Public Comment
2. Approve Minutes of Special Meeting Held September 25, 2024
3. Re: Pension Funding Policy

Summary: At the September 25, 2024, Personnel Committee meeting, staff presented a proposed Pension Funding Policy (Policy) to help the Districts manage their pension obligations more effectively. By taking a proactive approach, the Districts can avoid sudden increases in pension costs, which helps protect reserves and keep rates stable. The Committee agreed that this Policy is necessary and requested more information about the adoption process. They also asked staff to ensure that District funds won't be unnecessarily restricted if the pension plan is overfunded. The Policy has been updated to reflect these concerns, and a draft is attached. The Chief Engineer and General Manager will brief the Committee.

4. Re: Update on Clean Water Works Education Foundation (CWWEF)

Summary: The Chief Engineer and General Manager will give an update regarding CWWEF.

5. Re: Update on Districts' Sewer Management Programs

Summary: The Chief Engineer and General Manager will report on initiatives implemented since 2021 to improve the Districts' sewer management programs.

Adjourn

Report: Prior to or during the meeting session, the Chief Engineer and General Manager may update the Directors on various matters concerning the Districts that may be of current interest to the Directors.

Public Comment: Members of the public may address the Board of Directors on any item shown on the agenda or matter under the Board's authority. A "Request to Address Board of Directors" form is available. In compliance with the Americans with Disabilities Act, if you require special assistance to participate in this meeting, please contact the Secretary to the Boards' Office (562) 908-4288, extension 1100. Notification 48 hours prior to the meeting will enable staff to make reasonable arrangements to ensure accessibility to this meeting. (28CFR 35.101 et seq. ADA Title II).

Document Requests: Links to supporting documents are available online at the time of posting. Agendas and supporting documents or other writings that will be distributed to Board members in connection with matters subject to discussion or consideration at this meeting that are not exempt from disclosure under the Public Records Act are available for inspection following the posting of this agenda at the office of the Secretary to the Boards of Directors located at the Districts' Joint Administration Building, 1955 Workman Mill Road, Whittier, California, 90601, or at the time of the meeting at the address posted on this agenda.



**LOS ANGELES COUNTY
SANITATION DISTRICTS**
Converting Waste Into Resources

PENSION FUNDING POLICY

Draft – For October 23, 2024, Personnel Committee Discussion

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Pension Funding Policy

SECTION 1. POLICY STATEMENT

The Los Angeles County Sanitation Districts (Collectively Districts or individually District) recognize that a fully-funded defined benefit pension plan requires financial discipline and long-term commitment. The Districts also recognize that an unfunded pension liability could potentially cause financial stress, impact on operations, and pressure on user rates and charges. This policy reflects the Districts' commitment to achieve a fully funded pension plan in a timely and cost-effective manner.

The Districts have a history of being fiscally conservative and follow prudent financial management practices. Therefore, this policy was developed to:

- Ensure the Districts have the flexibility to respond to changes in future service priorities, revenue levels, and operating expenditures
- Provide fiscal protocols to address the Districts' Unfunded Accrued Liability (UAL)
- Maintain the Districts' financial position
- Preserve the Districts' creditworthiness
- Ensure that all pension funding decisions are made in members best interests and protect the interests of ratepayers, retirees, and employees.

SECTION 2. ~~ADMINISTRATION~~**TREASURER; ADMINISTRATION**

2.1 County Sanitation District No. 2 of Los Angeles County, through the Joint Administration Agreement (JAA), has been designated as the administrative organization for the Districts. This designation includes the handling of administrative actions related to employees, their benefits, and the California Public Employees' Retirement System (CalPERS).

2.12.2 Each District, through the Investment Policy, has appointed the District's Chief Engineer and General Manager as the Treasurer of the District.

2.22.3 The Treasurer, or his or her designee, is hereby authorized to implement this Policy, and establish and maintain all financial reserves in accordance with this Policy and all provisions of law.

2.32.4 The Treasurer shall develop procedures to implement this Policy and shall report to the Board of Directors (Board) of each District in accordance with the requirements of law and this Policy.

SECTION 3. BACKGROUND

The Districts provide a defined benefit pension plan through ~~the California Public Employees' Retirement System (CalPERS)~~. All qualified full-time Districts employees are required to participate in CalPERS.

CalPERS provides retirement, disability benefits, death benefits, and annual cost of living adjustments to plan members and beneficiaries.

The Districts have two (2) pension plans through CalPERS that employees currently have vested pension benefits in:

- Classic Plan (2.0% @ 55) accounts for the significant majority of the Districts' pension liability.
- Public Employment Pension Reform Act Plan "PEPRA" (2.0% @ 62) – enacted by California Legislation for employees hired and new entrants after January 1, 2013.

The Districts are statutorily required to make payments to CalPERS on an annual basis. The Districts' annual payments to CalPERS are comprised of two components: Normal Costs and unfunded accrued liability (UAL) Payments.

Normal Cost – represents the cost of pension benefits earned by current employees for their current year of service. Normal Costs payments are made monthly to CalPERS, which are based on a percentage of payroll.

UAL Payments – represents the shortfall in assets needed to fully fund prior benefits earned by employees and retirees. UAL payments are annual fixed dollar payments required to fund this shortfall.

The Districts' UAL represents a significant long-term liability. Given that the CalPERS annual UAL payment is a fixed dollar amount, the liability shall be viewed similarly to the Districts' long-term loan and bond debts.

3.1 UAL Post-Closure Exchange Agreement

The Districts have entered into an "exchange" agreement to apply a portion reserves available in the Landfill Post-Closure Fund toward the Districts' unfunded pension liability (UAL). The exchange was structured to leverage the Landfill Post-Closure Funds and generate interest costs savings on the CalPERS liability:

- The Districts made a total of \$344.4 Million in Additional Discretionary Payments (ADPs) from the Landfill Post-Closure Fund to partially pay off the UAL at the time in FY 21-22 and FY 22-23.
- Instead of paying annual CalPERS UAL payments, the Districts are required to pay a reduced annual fee into the Fee-In-Lieu Fund.
- Annual Payments are capped at \$634 Million – equal to the payments that would have been paid on a Pension Obligation Bond (POB): \$470 million 30-year POBs @ 3.1%.
- The "Fee In Lieu" Fund is available to pay for post-closure maintenance costs.
- After cap is reached, post-closure maintenance cost responsibility reverts back to solid waste system.
- The "Fee-in-Lieu" Fund's purpose, target levels and funding are defined in the Districts' Solid Waste Financial Reserve Policy.

3.2 Annual Adjustment to UAL/Amortization Bases

Every year around September, CalPERS releases a new actuarial valuation report, based on values as of June 30th of the previous year. CalPERS calculates the Districts' UAL as of this new valuation date, which increases or decreases from year to year, due to changes in the following factors/assumptions:

- Investment Performance – adjustment for investment gains/losses relative to the stated CalPERS Discount Rate (6.80% as of July 1, 2024);
- Demographic Performance – adjustments made based on actual performance compared to actuarial assumptions, which includes early/late retirement, disability, mortality, promotion, terminations, etc.
- Actuarial Assumptions - changes in the discount rate, life expectancy, rate of inflation, rate of return, etc.);
- Payroll / Benefit Changes - increase/decrease in number of employees or salary increases or adjustments.

SECTION 4. FUNDING PLAN AND OBJECTIVES

The Districts' funding goal is to be 100% funded [\(including funds in a Section 115 Trust\)](#). The Districts shall review its funding level each year, and take appropriate action(s) to maintain a minimum targeted funded ratio of 90% (based on the most CalPERS annual actuarial report). If the Districts funded ratio drops below 70%, the Treasurer will present to the Districts' Personnel Committee, a plan to address the shortfall.

The Districts will attempt to meet its pension funding obligations as follows:

4.1 Actuarially Determined Contributions

Each fiscal year, the Districts will contribute the normal cost and unfunded accrued liability ("UAL") as described in Section 3.

4.2 Annual UAL Payment

CalPERS offers the option to make monthly payments on the UAL or prepay the entire annual UAL amount at a discounted level by the end of July. The Districts will prepay its annual UAL payment each July to achieve budgetary savings as long as the Districts' are able to maintain sufficient reserves.

4.3 Additional Funding Options

The Districts shall utilize the following methods to ensure funding remains above 90%. In the event that the funding drops below 90%, the Treasurer will utilize the methods below with a goal to return to a 90% funded status within 10 years.

The targets and funding mechanisms shall be re-evaluated as the transition toward fewer Classic employees and retirees progresses. In particular, by 2050 it is expected that less than 5% of employees will be Classic, and the total number of Classic employees and retirees will be significantly reduced, resulting in a smaller and less volatile UAL.

In evaluating the use of the following methods, the Treasurer shall prioritize achieving the lowest overall long-term cost, while continuing to maintain adequate reserves for other needs.

4.3.1. ADPs

The Districts will seek to consistently apply available funds toward its pension liability. The Districts will make annual contribution from excess operating funds, in a manner consistent with the Board's Fund Balance and Reserve Policies.

4.3.2. Tax-Exempt Exchange

To the extent the Districts have pay-go capital projects, the Districts shall seek to finance such projects with tax-exempt bonds and use the scheduled budget amounts to pre-pay the UAL. The Districts shall use the scheduled UAL payments to pay the debt service on the bonds and derive savings from the interest cost differential.

4.3.3. Accelerated Pay-off of New Bases

When new bases are added to the Districts' UAL, the Districts shall seek to accelerate the repayment of such bases over a shorter timeline (e.g., 20-year base repaid in 10 years) using alternative amortization schedules allowed by CalPERS such as Fresh Start.

4.3.4. Internal Loan/ Investment

The Districts shall seek to optimize its capital structure and review the opportunity costs/return of its investment and capital financings. To the extent that the Districts has the capacity to advance, loan and/or invest a portion of its funds designated or restricted for a specific purpose and the expected return is below the current CalPERS Discount Rate (i.e., 6.80%), then it shall consider structuring an internal loan or investment to address the District's retirement benefits.

4.3.5. Section 115 Pension Trust

The Districts shall establish and maintain a pension stabilization fund in the form of a Section 115 Pension Trust (Trust). Assets in the Trust may be used only for pension related costs. The Districts' objective with the Trust is to accumulate assets to fund its CalPERS pension costs and future obligations, as well as mitigate the budget impact of costs associated with future UAL. The Districts will strive to meet the following guidelines:

- Initial Deposit: To begin the funding of the Trust, the Districts will make a one-time contribution of \$5 million to the Trust.
- Ongoing Deposits: The Districts will consider making additional contributions to the Trust on an annual basis. The amount will be calculated as the difference between 25 percent of estimated base salaries less any payments made to CalPERS and payments required in the UAL Post Closure Exchange Agreement. In the event that the calculation is negative, no ongoing deposit will be made. If the total amount of this payment is less than \$10 million, the Treasurer will include this payment in the annual budgets for review and approval by each District. In the event a calculated annual deposit is above that amount, the Treasurer

will present the proposed contribution to the Districts' Personnel Committee for review and approval prior to including in each District's budget.

- Investment Portfolio Selection: The Treasurer or his/her designee, will work with the Trust's investment advisor, to select investment portfolios based on the Districts' risk tolerance and projected withdrawal schedule from the Trust.
- Use of Trust Funds: Funds as allowed by the Trust may be used for any of the following purposes: (1) the annual UAL payment to CalPERS, (2) the annual normal cost payment to CalPERS, (3) reimbursement to the Districts for CalPERS pension costs, and (4) Additional Discretionary Payments to CalPERS.
- Funding Goals: When measuring its funded ratio, the Treasurer will incorporate assets in the Trust, in addition to the assets under management by CalPERS. The Districts may consider foregoing contributions to the Trust if its funded ratio exceeds the target 90% funded status, or if the current assets on deposit in the Trust are projected to be sufficient to cover budgetary fluctuations in the future.

SECTION 5. BASE SELECTION STRATEGIES

When making additional payments to CalPERS, the Districts are required to select which base these monies should be applied. The Districts will select paying off shorter-term bases to have the maximum impact on budgetary savings, and longer-term bases to maximize total UAL savings. In general, the Treasurer will prioritize total savings as long as near-term operational and capital needs can be met.

SECTION 6. SUPERFUNDED STATUS

In the event that the funded ratio in the CalPERS actuarial valuation report is 90 percent or higher, the Districts will not make discretionary payments towards CalPERS pension costs, unless required under the UAL Post-Closure Exchange Agreement. In the event that either ~~of the Classic or PEPRADistrict~~ plans achieve "superfunded" status, where asset values exceed the accrued liability (i.e., funding level exceeds 100%), the Districts shall direct funds otherwise available for the Additional Funding Options in 4.3 toward the District's Other Post-Employment Benefits (OPEB) liability. In the event that both the Pension plan and OPEB liabilities are fully-funded or super-funded, no additional funding will be made.

SECTION 7. PENSION FUNDING POLICY ADOPTION

This Policy will become effective after approval by all of the Districts Boards. This Policy will be reviewed on an annual basis and any modifications must be approved by the Boards. After each review, the matter will be referred to the Personnel Committee (comprised of the Chairpersons of the Board of Directors of each active County Sanitation District of Los Angeles County) for its consideration.

Adopted this _____ day of _____