



FALLBROOK PUBLIC UTILITY DISTRICT
MEETING OF THE FISCAL POLICY AND INSURANCE COMMITTEE

AGENDA

THURSDAY, MARCH 1, 2018
1:30 P.M.

FALLBROOK PUBLIC UTILITY DISTRICT
990 E. MISSION RD., FALLBROOK, CA 92028
PHONE: (760) 728-1125

If you have a disability and need an accommodation to participate in the meeting, please call the Secretary at (760) 728-1125 for assistance so the necessary arrangements can be made.

Writings that are public records and are distributed during a public meeting are available for public inspection at the meeting if prepared by the local agency or a member of its legislative body or after the meeting if prepared by some other person.

I. PRELIMINARY FUNCTIONS

CALL TO ORDER / ROLL CALL

PUBLIC COMMENT

II. ACTION / DISCUSSION ----- (ITEMS A—C)

- A. REVIEW OF THE DISTRICT'S INVESTMENT PORTFOLIO STRATEGY AND TREASURER'S REPORT
- B. FINANCE PROJECTS UPDATE
- C. UPDATE ON DISTRICT'S CALPERS & OTHER POST EMPLOYMENT BENEFITS LIABILITIES

III. ADJOURNMENT OF MEETING

DECLARATION OF POSTING

I, Kelly Laughlin, Acting Secretary of the Board of Directors of the Fallbrook Public Utility District, do hereby declare that I posted a copy of the foregoing agenda in the glass case at the entrance of the District Office located at 990 East Mission Road, Fallbrook, California, at least 72 hours prior to the meeting in accordance with Government Code § 54954.2(a).

I, Kelly Laughlin, further declare under penalty of perjury and under the laws of the State of California that the foregoing is true and correct.


FEB 26 2018

Dated / Fallbrook, CA

Kelly Laughlin

Acting Secretary, Board of Directors

M E M O

TO: Fiscal Policy & Insurance Committee
FROM: David Shank, Assistant General Manager/CFO 
DATE: March 1, 2018
SUBJECT: Review of the District's Investment Portfolio Strategy and Treasurer's Report

Purpose

The capital markets are continuously changing impacting the fixed income market. With the recent changes in market conditions, it is prudent to review the District's investment portfolio strategy to ensure that it is aligned with the District's investment strategy. In addition, a new format for the treasurer's report will be presented to the Committee.

Summary

The District utilizes PFM as its investment portfolio manager. As of January 31, 2018, PFM was actively managing the District's \$14.8 million dollar portfolio. The portfolio is managed in compliance with State Code and the District's Investment Policy. PFM will be present at the meeting and prepared to discuss the investment strategy and alternative strategies that the District may want to consider given current market conditions.


The District's current Treasurer's Report provides a range of information in an ad hoc manner. Staff is recommending that a new format be implemented that provides a complete picture of the District's investments with summary information. The goal is to make the report more useful to stakeholders. A mock-up example of a new format will be presented for discussion at the meeting.

Recommended Action

This item is for discussion only. No action is required.

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M E M O

TO: Fiscal Policy & Insurance Committee
FROM: David Shank, Assistant General Manager/CFO 
DATE: March 1, 2018
SUBJECT: Update on the District's CalPERS and Other Post Employment Benefits (OPEB) Liabilities

Purpose

In February, CalPERS adopted a new Amortization Policy that changes the amortization period from 30 years to 20 years. This takes effect on June 30, 2019 and will impact the District's 2021 & 2022 valuations.

In preparation for the next year's financial statements, staff contracted and received a GASB 74 report on the District's OPEB plan. As the plan administrator the District is required to provide this information. The report will be used to provide the Required Supplementary Information (RSI) for the fiscal year 2017-18 Comprehensive Annual Financial Report (CAFR).

Summary

The changes CalPERS is making impact the amortization of new AULs only with existing schedules not being impacted. For the District this would primarily impact gain/loss on plan assets outside the assumed rate of return. The change results in a flatter payment profile for the District's AUL payments. This is important because as the District's plan is more fully funded, swings in market performance will have a larger financial impact on funded status. The new policy will help stabilize the impact of investment gain/loss on plan AUL payments. These changes don't have any immediate impact on the District. The current CalPERS report will be reviewed as part of the budget discussions with the Committee.

The attached OPEB report shows that change in the plan's liability due to several factors. The fiscal year 2016-17 Audited Financial Statements show the District's OPEB liability to be \$849,667 with a valuation date of 7/1/2016. This estimate was based upon the GASB 45 disclosure requirements. The GASB 74 report, which is very similar to GASB 45, for fiscal year 2017-2018 takes into account changes in the reporting requirements and another year of earned benefits. The change in valuation methodology is the most significant change and results in a 7/1/2016 liability of \$971,597, which is \$121,930 higher than the last valuation. The fiscal year 2017-18 beginning value of the AUL is \$1,039,721, which is a \$68,124 increase from 7/1/2016. The final report is provided as Attachment A.

Recommended Action

This item is for discussion only. No action is required.

EXHIBIT “A”

**Fallbrook Public Utility District
Post-Employment Medical Benefits Plan**

GASB 74/75 Disclosure Information

Statement of Fiduciary Net Position – June 30, 2017

	2017
Assets	
Cash, deposits, and cash equivalents	0
Receivables:	
Accrued Income	0
Total receivables	0
Investments:	
Managed account	755,952
Total Investments	755,952
Total Assets	755,952
Liabilities	
Payables	0
Total Liabilities	0
Net position restricted for postemployment benefits other than pensions	\$755,952

**Statement of Changes in Fiduciary Net Position
for the Year Ended June 30, 2017**

	2017
Additions	
Employer contributions ¹	767,396
Investment income:	
Net increase in fair value of investments	20,571
Total additions	787,967
Deductions	
Administrative expense	619
Benefit payments ¹	31,396
Total deductions	32,015
Net increase in net position	755,952
Net position restricted for postemployment benefits other than pensions	
Beginning of year	\$0
End of year	\$755,952

1. Includes \$13,706 of pay-as-you-go contributions made from sources outside of trust, plus an implicit subsidy amount of \$17,690.



**Fallbrook Public Utility District
Post-Employment Medical Benefits Plan**

GASB 74/75 Disclosure Information

**Notes to the Financial Statements
For the Year Ended June 30, 2017**

Plan Description

Plan administration. The District administers its Public Agencies Post-Employment Health Care Plan (OPEB Plan), a single-employer defined benefit plan that is used to provide postemployment benefits other than pensions. The District's OPEB Plan provides continued medical dental, and vision coverage for an eligible retired employee, spouse or legal dependent. Coverage will continue for the retiree and spouse or legal dependent until they become entitled to Medicare Benefits at age 65.

During the year ended June 30, 2017, the District entered into a trust agreement with Public Agency Retirement Services (PARS), as the trust administrator and U.S. Bank National Association (US Bank) as the trustee. Management of the OPEB Plan is vested with the General Manager of the District with oversight and governance by the District's Finance Committee. Benefit terms are as established by the District's board of directors and agreed upon between the District and the Fallbrook Public Utility District Employees' Association through Memorandum of Understanding.

Plan membership. At July 1, 2016, membership consisted of the following:

Inactive plan members or beneficiaries currently receiving benefit payments	4
Active plan members	69

Benefits provided. Employees retiring after age 50, with 10 or more years of continuous employment, will have the mandatory amount estimated by the District at the date of retirement to be necessary to pay for 50% of the employee's monthly health insurance premium, and any additional costs for spouse and dependent(s) covered at the time of retirement. The difference between the total value of sick leave at retirement and the estimated cost benefit (medical, dental and vision) minus the estimated costs of 50% of the retiree's medical premium is deposited into a health reimbursement account at the District to pay for retiree benefits until Medicare entitlement or the account is depleted. The District's health reimbursement account (HRA) balance as of June 30, 2017 is \$136,528 and \$182,694 as of June 30, 2016. The District will pay for half (50%) of the retired employee's monthly premium.

Contributions. The District has historically funded the plan on a pay-as-you-go basis. Plan members are not required to contribute to the OPEB Plan.



**Fallbrook Public Utility District
Post-Employment Medical Benefits Plan**

GASB 74/75 Disclosure Information

Investments

Investment policy. The OPEB Plan has an established investment guidelines policy document which provides a framework for a well-diversified asset mix that can potentially be expected to meet the trusts short and long-term needs consistent with the District’s investment objectives, liquidity considerations and risk tolerance. The investment guidelines facilitate the process of ongoing communication between the District and the plan fiduciaries and help maintain a long-term perspective when market volatility is caused by short-term market movements. As the trustee, US Bank has delegated investment authority to Highmark Capital Management (Highmark) as the investment manager. Highmark has full investment discretion over the managed assets in the trust and is authorized to purchase, sell, exchange, invest, reinvest, and manage the OPEB Plan assets in accordance with the trust’s investment objectives.

The goal of the trust’s investment program is to generate adequate long-term returns that, when combined with contributions, will result in sufficient assets to pay the present and future obligations of the OPEB Plan. The following objectives are intended to assist in achieving this goal:

- The OPEB Plan assets should earn, on a long-term average basis, a rate of return equal to or more than the target rate of return of 4.0%;
- The OPEB Plan trust should seek to earn a return more than its policy benchmark over the long-term;
- The OPEB Plan assets will be managed on a total return basis which considers both investment income and capital appreciation. As the plan sponsor the District recognizes the importance of preservation of capital, but also adheres to the principle that varying degrees of investment risk are generally rewarded with compensating returns.

To achieve the objectives above, the District has established an asset allocation which strives for the growth of income and principal with a strategic, long-term perspective of the capital markets. With a moderate risk tolerance, the following table summarizes the District’s OPEB Plan trust asset allocation policy:

<i>Strategic Asset Allocation Range</i>		
Cash	Fixed Income	Equity
5%	45%	50%

Except for the limitations above, the investment manager may allocate the fixed income assets portion among various sectors and industries, as well as varying maturities and credit quality that are consistent with the overall goals and objectives of the portfolio. For the equity portion of the portfolio, the investment manager can allocate assets among various market capitalizations (large, mid, small) and investment styles (value, growth) and among domestic, international developed and emerging market equity securities. The tables below summarize the fixed income and equity portfolio ranges.

Fixed Income	Range
Long-term bonds (maturities > 7 years)	0% - 25%
Intermediate-term bonds (maturities 3-7 years)	25% - 60%
Short-term bonds (maturities < 3 years)	0% - 25%
High yield bonds	0% - 10%



**Fallbrook Public Utility District
Post-Employment Medical Benefits Plan**

GASB 74/75 Disclosure Information

Equity	Range
Domestic large cap equity	15% - 40%
Domestic mid cap equity	0% - 10%
Domestic small cap equity	0% - 15%
International equity	0% - 15%
Real estate investment trust	0% - 15%

Rate of return. For the year ended June 30, 2017 the money-weighted rate of return on investments, net of investment expense, was 2.42 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts invested.

Net OPEB Liability

The components of the net OPEB liability at June 30, 2017, were as follows:

Total OPEB liability	1,039,721
Plan fiduciary net position	755,952
Net OPEB liability	\$283,769
Plan fiduciary net position as a percentage of the total OPEB liability	72.71%

Actuarial assumptions. The total OPEB liability was determined by an actuarial valuation as of July 1, 2016, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Salary increases	3.00 percent
Investment rate of return	4.00 percent, net of OPEB plan investment expense
Healthcare cost trend rate	8.00 percent for 2016; 7.00 percent for 2017; 6.00 percent for 2018; and 5.00 percent for 2019 and later years

Pre-retirement mortality rates were based on the RP-2014 Employee Mortality Table for Males or Females, as appropriate, without projection. Post-retirement mortality rates were based on the RP-2014 Health Annuitant Mortality Table for Males or Females, as appropriate, without projection.

Actuarial assumptions used in the July 1, 2016 valuation were based on a review of plan experience during the period July 1, 2013 to June 30, 2016.

To achieve the goal set by the investment policy, plan assets will be managed to earn, on a long-term basis, a rate of return equal to or more than the target rate of return of 4.0 percent.

Discount rate. The discount rate used to measure the total OPEB liability was 4.0 percent. The projection of cash flows used to determine the discount rate assumed that District contributions will be made at rates equal to pay-as-you-go. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.



**Fallbrook Public Utility District
Post-Employment Medical Benefits Plan**

GASB 74/75 Disclosure Information

Change in Net OPEB Liability

	<i>Total OPEB Liability</i>	<i>Plan Fiduciary Net Position</i>	<i>Net OPEB Liability</i>
Balances at 6/30/16	\$971,597	\$0	\$971,597
Changes for the year:			
Service cost	61,278		61,278
Interest cost	38,242		38,242
Differences between expected and actual experience	0		0
Contributions—employer		767,396	(767,396)
Net investment income		20,571	(20,571)
Benefit payments	(31,396)	(31,396)	0
Administrative expense		(619)	619
Net changes	68,124	755,952	(687,828)
Balances at 6/30/17	\$1,039,721	\$755,952	\$283,769

Changes of benefit terms. None since the June 30, 2016 valuation.

Changes of assumptions. None since the June 30, 2016 valuation.

Sensitivity of the net OPEB liability to changes in the discount rate. The following presents the net OPEB liability, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (3.00 percent) or 1-percentage-point higher (5.00 percent) than the current discount rate:

	1% Decrease (3.00%)	Discount Rate (4.00%)	1% Increase (5.00%)
Net OPEB liability (asset)	353,205	283,769	217,481

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates. The following presents the net OPEB liability, as well as what the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (7.00 percent decreasing to 4.00 percent) or 1-percentage-point higher (9.00 percent decreasing to 6.00 percent) than the current healthcare cost trend rates:

	1% Decrease (7.00% decreasing to 4.00%)	Discount Rate (8.00% decreasing To 5.00%)	1% Increase (9.00% decreasing to 6.00%)
Net OPEB liability (asset)	179,196	283,769	404,884



**Fallbrook Public Utility District
Post-Employment Medical Benefits Plan**

GASB 74/75 Disclosure Information

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2017, the District recognized OPEB expense of \$86,926. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience ¹	\$0	\$0
Changes in assumptions or other inputs ²	0	0
Net difference between projected and actual earnings on OPEB plan investments ³	0	7,358
Total	\$0	\$7,358

(1) There was no difference between expected and actual experience during fiscal year end June 30, 2017 because standard actuarial update procedures were used to roll forward to the measurement date amounts from the previous year.

(2) There were no changes in assumptions during fiscal year end June 30, 2017.

(3)

Amounts reported as deferred outflows and deferred inflows of resources will be recognized in OPEB expense as follows:

Year ended June 30:	Deferred Outflows of Resources	Deferred Inflows of Resources
2018	\$0	\$1,840
2019	0	1,840
2020	0	1,840
2021	0	1,838

**Fallbrook Public Utility District
Post-Employment Medical Benefits Plan**

GASB 74/75 Disclosure Information

Schedule of Changes in Net OPEB Liability

	2017
Total OPEB Liability	
Service Cost	61,278
Interest	38,242
Changes of benefit terms	0
Difference between expected and actual experience	0
Changes of assumptions	0
Benefit payments ¹	(31,396)
Net change in total OPEB liability	68,124
Total OPEB liability – beginning	\$971,597
Total OPEB liability – ending (a)	\$1,039,721
Plan fiduciary net position	
Contributions – employer	767,396
Net investment income	20,571
Benefit payments ²	(31,396)
Administrative expense	(619)
Net change in plan fiduciary net position	755,952
Plan fiduciary net position – beginning	\$0
Plan fiduciary net position – ending (b)	\$755,952
Net OPEB liability – ending (a) – (b)	\$283,769
Plan fiduciary net position as a percentage of the total OPEB liability	72.71%
Covered payroll	\$5,684,049
Net OPEB liability (asset) as a percentage of covered payroll	4.99%

Schedule of Investment Returns

	2017
Annual money-weighted rate of return, net of investment expense	2.42%

1. *Includes benefits paid from trust with implied subsidies and benefits paid from other sources with implied subsidy.*
2. *Includes benefits paid from trust (but no implied subsidy) and benefits from other sources with implied subsidy.*

