Mission statement of McKinleyville Community Services District:
"Provide McKinleyville with safe and reliable water, wastewater, lighting, open space, parks and recreation, library services, and other appropriate services for an urban community in an environmentally and fiscally responsible manner."

NOTICE IS HEREBY GIVEN THAT A *Special* MEETING OF THE
MCKINLEYVILLE COMMUNITY SERVICES DISTRICT BOARD OF DIRECTORS
AUDIT AND FINANCE COMMITTEE MEETING
WILL BE HELD
Monday, October 23, 2023 at 2:00 p.m.

LOCATION: MCSD District Office Conference Room
1656 Sutter Road
McKinleyville, CA 95519

MEETING AGENDA

1. Call to Order

2. Public Comment

3. Review of CalPERS & OPEB Annual Valuation Reports

4. Audit & Budget Update

Posted 2:00 p.m. October 20, 2023

Pursuant to California Government Code Section 54957.5. this agenda and complete packet are available for public inspection on the web at McKinleyvillecsd.com or upon request at the MCSD office, 1656 Sutter Road, McKinleyville.

McKinleyville Community Services District will, on request, make agendas available in appropriate alternative formats to persons with a disability, as required by Section 202 of the Americans with Disabilities Act of 1990 (42 U.S.C. Sec. 12132), and the federal rules and regulations adopted in implementation thereof. Individuals who need this agenda in an alternative format or who need a disability-related modification or accommodation in order to participate in the meeting should contact the Board Secretary at (707) 839-3251. Notification 48 hours prior to the meeting will enable the District to make reasonable arrangements for accommodations.

McKinleyville Community Services District

AUDIT & FINANCE COMMITTEE

October 23, 2023 TYPE OF ITEM: **ACTION**

ITEM: 3 **Review of CalPERS & OPEB Annual Valuation Reports**

PRESENTED BY: **Nicole Alvarado, Finance Director**

TYPE OF ACTION: **Roll Call Vote**

Recommendation:

Staff recommends the Committee review the information provided, discuss and direct staff to allocate $250,000 in the FY24-25 budget for the pre-payment of OPEB premiums.

Discussion:

Each summer, the District is provided with a valuation report detailing updates to its accrued pension and other-post employment benefits (OPEB) liabilities. These liabilities are calculated by an actuary and are required disclosures within the District's financial statements.

The CalPERS Valuation Report details the District's required payments towards its unfunded accrued pension liability. For FY24-25 the payment will be $229,246. For FY25-26 the projected payment will be $248,000. The report also provides a projected payment schedule through FY29-30 starting on page 7. Payments increase an average of 7% over the 5-year period.

The OPEB Valuation Report details the District's liability towards health insurance premiums for retirees. The liability decreased from $6,942,623 in FY21-22 to $4,276,952 in FY22-23 due to the establishment of the Section 115 Trust. In addition, the discount rate used to calculate the liability increased from 3.69% to 4.10%. The higher the discount rate the lower the calculated liability will be. The District's actuary has recommended the District develop a consistent schedule of pre-payments towards its liability in the amount of its annual actuarially determined contribution.

Alternatives:

Take No Action

Fiscal Analysis:

Annual payments made toward the District's unfunded liability are required by CalPERS. The District should factor in increases to the payment when assembling the annual budget, these increases may impact net income for the funds affected.

For OPEB, the District pays health insurance premiums monthly for retirees, these expenses are paid from the District's operating budgets. To fully realize the benefits of the Section 115 Trust the District's actuary has recommended the District contribute to the Section115 Trust its annual actuarially determined contribution. This amount for FY24-25 was determined per the report (page 17) to be $567,984. While funding this amount annually is not feasible for the District at this time, it is recommended the District determine a consistent amount above the monthly premiums to contribute to the Trust so the Trust can earn interest and take advantage of a higher discount rate.

Environmental Requirements:

Not applicable

Exhibits/Attachments:

- CalPERS Disclosure Valuation Report
- OPEB Disclosure Valuation Report

California Public Employees' Retirement System
Actuarial Office
400 Q Street, Sacramento, CA 95811 | Phone: (916) 795-3000 | Fax: (916) 795-2744
888 CalPERS (or **888**-225-7377) | TTY: (877) 249-7442 | **www.calpers.ca.gov**

July 2023

Miscellaneous Plan of the McKinleyville Community Services District (CalPERS ID: 3058001188)
Annual Valuation Report as of June 30, 2022

Dear Employer,

Attached to this letter is the June 30, 2022 actuarial valuation report for the rate plan noted above. **Provided in this report is the determination of the minimum required employer contributions for fiscal year (FY) 2024-25**. In addition, the report contains important information regarding the current financial status of the plan as well as projections and risk measures to aid in planning for the future.

Because this plan is in a risk pool, the following valuation report has been separated into two sections:

- Section 1 contains specific information for the plan including the development of the current and projected employer contributions, and
- Section 2 contains the Risk Pool Actuarial Valuation appropriate to the plan as of June 30, 2022.

Section 2 can be found on the CalPERS website (www.calpers.ca.gov). From the home page, go to *"Forms & Publications"* and select *"View All"*. In the search box, enter *"Risk Pool"* and from the results list download the Miscellaneous Risk Pool Actuarial Valuation Report for June 30, 2022.

Actuarial valuations are based on assumptions regarding future plan experience including investment return and payroll growth, eligibility for the types of benefits provided, and longevity among retirees. The CalPERS Board of Administration (board) adopts these assumptions after considering the advice of CalPERS actuarial and investment teams and other professionals. Each actuarial valuation reflects all prior differences between actual and assumed experience and adjusts the contribution requirements as needed. This valuation is based on an investment return assumption of 6.8%, which was adopted by the board in November 2021. Other assumptions used in this report are those recommended in the CalPERS Experience Study and Review of Actuarial Assumptions report from November 2021.

Required Contributions

The table below shows the minimum required employer contributions for FY 2024-25 along with estimates of the required contributions for FY 2025-26. Employee contributions other than cost sharing (whether paid by the employer or the employee) are in addition to the results shown below. **The required employer contributions in this report do not reflect any cost sharing arrangement between the agency and the employees.**

Fiscal Year	Employer Normal Cost Rate	Employer Amortization of Unfunded Accrued Liability
2024-25	11.88%	$229,246
Projected Results		
2025-26	*11.9%*	*$248,000*

The actual investment return for FY 2022-23 was not known at the time this report was prepared. The projections above assume the investment return for that year would be 6.8%. ***To the extent the actual investment return for FY 2022-23 differs from 6.8%, the actual contribution requirements for FY 2025-26 will differ from those shown above.*** For additional details regarding the assumptions and methods used for these projections, please refer to the "Projected Employer Contributions" in the "Highlights and Executive Summary" section. This section also contains projected required contributions through FY 2029-30.

Changes from Previous Year's Valuations

There are no significant changes in actuarial assumptions or policies in the 2022 actuarial valuation. There may be changes specific to the plan such as contract amendments and funding changes.

Further descriptions of general changes are included in "Highlights and Executive Summary" and in Appendix A of the Section 2 report in "Actuarial Methods and Assumptions." The effects of any changes on the required contributions are included in "Reconciliation of Required Employer Contributions," also in the Section 2 report.

Questions

A CalPERS actuary is available to answer questions about this report. Other questions may be directed to the Customer Contact Center at (888)-CalPERS or (**888-225-7377**).

Sincerely,

SCOTT TERANDO, ASA, EA, MAAA, FCA, CFA
Chief Actuary, CalPERS

RANDALL DZIUBEK, ASA, MAAA
Deputy Chief Actuary, Valuation Services, CalPERS

Actuarial Valuation
as of June 30, 2022

for the
Miscellaneous Plan
of the
McKinleyville Community Services District
(CalPERS ID: 3058001188)

Required Contributions
for Fiscal Year
July 1, 2024 - June 30, 2025

Table of Contents

Section 1

Plan Specific Information for the Miscellaneous Plan of the McKinleyville Community Services District

(CalPERS ID: 3058001188)
(Rate Plan ID: 1029)

Table of Contents

Actuarial Certification

To the best of our knowledge, this report, comprised of Sections 1 and 2, is complete and accurate and contains sufficient information to disclose, fully and fairly, the funded condition of the Miscellaneous Plan of the McKinleyville Community Services District and satisfies the actuarial valuation requirements of Government Code section 7504. This valuation is based on the member and financial data as of June 30, 2022 provided by the various CalPERS databases and the benefits under this plan with CalPERS as of the date this report was produced. Section 1 of this report is based on the member and financial data for McKinleyville Community Services District, while Section 2 is based on the corresponding information for all agencies participating in the Miscellaneous Risk Pool to which the plan belongs.

As set forth in Section 2 of this report, the pool actuaries have certified that, in their opinion, the valuation of the Miscellaneous Risk Pool has been performed in accordance with generally accepted actuarial principles, in accordance with standards of practice prescribed by the Actuarial Standards Board, and that the assumptions and methods are internally consistent and reasonable for the risk pool as of the date of this valuation and as prescribed by the CalPERS Board of Administration according to provisions set forth in the California Public Employees' Retirement Law.

Having relied upon the information set forth in Section 2 of this report and based on the census and benefit provision information for the rate plan, it is my opinion as the plan actuary that the Unfunded Accrued Liability amortization bases as of June 30, 2022 and employer contribution as of July 1, 2024 have been properly and accurately determined in accordance with the principles and standards stated above.

The undersigned is an actuary who satisfies the *Qualification Standards for Actuaries Issuing Statements of Actuarial Opinion in the United States* with regard to pensions.

NINA RAMSEY, ASA, MAAA
Actuary, CalPERS

Highlights and Executive Summary

- **Introduction**
- **Purpose of Section 1**
- **Required Contributions**
- **Additional Discretionary Employer Contributions**
- **Funded Status – Funding Policy Basis**
- **Projected Employer Contributions**
- **Other Pooled Miscellaneous Risk Pool Rate Plans**
- **Cost**
- **Changes Since the Prior Year's Valuation**
- **Subsequent Events**

Introduction

This report presents the results of the June 30, 2022 actuarial valuation of the Miscellaneous Plan of the McKinleyville Community Services District of the California Public Employees' Retirement System (CalPERS). This actuarial valuation sets the minimum required contributions for fiscal year (FY) 2024-25.

Purpose of Section 1

This Section 1 report for the Miscellaneous Plan of the McKinleyville Community Services District of CalPERS was prepared by the Actuarial Office using data as of June 30, 2022. The purpose of the valuation is to:

- Set forth the assets and accrued liabilities of this rate plan as of June 30, 2022;
- Determine the minimum required employer contributions for this rate plan for FY July 1, 2024 through June 30, 2025;
- Determine the required member contribution rate for FY July 1, 2024 through June 30, 2025 for employees subject to the California Public Employees' Pension Reform Act of 2013 (PEPRA); and
- Provide actuarial information as of June 30, 2022 to the CalPERS Board of Administration (board) and other interested parties.

The pension funding information presented in this report should not be used in financial reports subject to Governmental Accounting Standards Board (GASB) Statement No. 68 for a Cost Sharing Employer Defined Benefit Pension Plan. A separate accounting valuation report for such purposes is available on the CalPERS website (www.calpers.ca.gov).

The measurements shown in this actuarial valuation may not be applicable for other purposes. The agency should contact the plan actuary before disseminating any portion of this report for any reason that is not explicitly described above.

Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; changes in actuarial policies; changes in plan provisions or applicable law; and differences between the required contributions determined by the valuation and the actual contributions made by the agency.

Assessment and Disclosure of Risk

This report includes the following risk disclosures consistent with the guidance of Actuarial Standard of Practice No. 51 and recommended by the California Actuarial Advisory Panel (CAAP) in the Model Disclosure Elements document:

- A "Scenario Test," projecting future results under different investment income returns.
- A "Sensitivity Analysis," showing the impact on current valuation results using alternative discount rates of 5.8% and 7.8%.
- A "Sensitivity Analysis," showing the impact on current valuation results assuming rates of mortality are 10% lower or 10% higher than our current post-retirement mortality assumptions adopted in 2021.
- Plan maturity measures indicating how sensitive a plan may be to the risks noted above.

Required Contributions

Required Employer Contributions	Fiscal Year 2024-25
Employer Normal Cost Rate	**11.88%**
Plus	
Required Payment on Amortization Bases[1]	**$229,246**
Paid either as	
1) Monthly Payment	**$19,103.83**
Or	
2) Annual Prepayment Option*	**$221,828**

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) plus the Employer Unfunded Accrued Liability (UAL) Contribution Amount (billed monthly (1) or prepaid annually (2) in dollars).

** Only the UAL portion of the employer contribution can be prepaid* ***(which must be received in full no later than July 31)****.*

	Fiscal Year 2023-24	Fiscal Year 2024-25
Development of Normal Cost as a Percentage of Payroll		
Base Total Normal Cost for Formula	18.76%	18.81%
Surcharge for Class 1 Benefits[2]		
None	0.00%	0.00%
Phase out of Normal Cost Difference[3]	0.00%	0.00%
Plan's Total Normal Cost	18.76%	18.81%
Offset Due to Employee Contributions	6.92%	6.93%
Employer Normal Cost Rate	11.84%	11.88%

[1] The required payment on amortization bases does not take into account any additional discretionary payment made after April 28, 2023.

[2] Section 2 of this report contains a list of Class 1 benefits and corresponding surcharges.

[3] When a rate plan joins the pool, the difference in normal cost between the pool and the rate plan is phased out over a five-year period in accordance with the CalPERS contribution allocation policy.

Additional Discretionary Employer Contributions

The minimum required employer contribution towards the Unfunded Accrued Liability (UAL) for this rate plan for FY 2024-25 is $229,246. CalPERS allows agencies to make additional discretionary payments (ADPs) at any time and in any amount. These optional payments serve to reduce the UAL and future required contributions and can result in significant long-term savings. Agencies can also use ADPs to stabilize annual contributions as a fixed dollar amount, percent of payroll or percent of revenue.

Provided below are select ADP options for consideration. Making such an ADP during FY 2024-25 does not require an ADP be made in any future year, nor does it change the remaining amortization period of any portion of unfunded liability. For information on permanent changes to amortization periods, see the “Amortization Schedule and Alternatives” section of the report.

Agencies considering making an ADP should contact CalPERS for additional information.

Minimum Required Employer Contribution for Fiscal Year 2024-25

Estimated Normal Cost	Minimum UAL Payment	ADP	Total UAL Contribution	Estimated Total Contribution
$105,567	$229,246	$0	$229,246	$334,813

Alternative Fiscal Year 2024-25 Employer Contributions for Greater UAL Reduction

Funding Horizon	Estimated Normal Cost	Minimum UAL Payment	ADP[1]	Total UAL Contribution	Estimated Total Contribution
20 years	$105,567	$229,246	$39,423	$268,669	$374,236
15 years	$105,567	$229,246	$84,180	$313,426	$418,993
10 years	$105,567	$229,246	$178,580	$407,826	$513,393
5 years	$105,567	$229,246	$472,087	$701,333	$806,900

[1] The ADP amounts are assumed to be made in the middle of the fiscal year. A payment made earlier or later in the fiscal year would have to be less or more than the amount shown to have the same effect on the UAL amortization.

Note that the calculations above are based on the projected UAL as of June 30, 2024 as determined in the June 30, 2022 actuarial valuation. New unfunded liabilities can emerge in future years due to assumption or method changes, changes in plan provisions, and actuarial experience different than assumed. Making an ADP illustrated above for the indicated number of years will not result in a plan that is exactly 100% funded in the indicated number of years. Valuation results will vary from one year to the next and can diverge significantly from projections over a period of several years.

Funded Status – Funding Policy Basis

The table below provides information on the current funded status of the plan under the funding policy. The funded status for this purpose is based on the market value of assets relative to the funding target produced by the entry age actuarial cost method and actuarial assumptions adopted by the board. The actuarial cost method allocates the total expected cost of a member's projected benefit (**Present Value of Benefits**) to individual years of service (the **Normal Cost**). The value of the projected benefit that is not allocated to future service is referred to as the **Accrued Liability** and is the plan's funding target on the valuation date. The **Unfunded Accrued Liability** (UAL) equals the funding target minus the assets. The UAL is an absolute measure of funded status and can be viewed as employer debt. The **funded ratio** equals the assets divided by the funding target. The funded ratio is a relative measure of the funded status and allows for comparisons between plans of different sizes.

	June 30, 2021	**June 30, 2022**
1. Present Value of Benefits	$11,184,099	$11,693,399
2. Entry Age Accrued Liability	9,879,806	10,399,637
3. Market Value of Assets (MVA)	8,177,432	7,430,251
4. Unfunded Accrued Liability (UAL) [(2) – (3)]	$1,702,374	$2,969,386
5. Funded Ratio [(3) / (2)]	82.8%	71.4%

A funded ratio of 100% (UAL of $0) implies that the funding of the plan is on target and that future contributions equal to the normal cost of the active plan members will be sufficient to fully fund all retirement benefits if future experience matches the actuarial assumptions. A funded ratio of less than 100% (positive UAL) implies that in addition to normal costs, payments toward the UAL will be required. Plans with a funded ratio greater than 100% have a negative UAL (or surplus) but are required under current law to continue contributing the normal cost in most cases, preserving the surplus for future contingencies.

Calculations for the funding target reflect the expected long-term investment return of 6.8%. If it were known on the valuation date that future investment returns will average something greater/less than the expected return, calculated normal costs and accrued liabilities provided in this report would be less/greater than the results shown. Therefore, for example, if actual average future returns are less than the expected return, calculated normal costs and UAL contributions will not be sufficient to fully fund all retirement benefits. Under this scenario, required future normal cost contributions will need to increase from those provided in this report, and the plan will develop unfunded liabilities that will also add to required future contributions. For illustrative purposes, funded statuses based on a 1% lower and higher average future investment return (discount rate) are as follows:

	1% Lower Average Return	**Current Assumption**	**1% Higher Average Return**
Discount Rate	5.8%	6.8%	7.8%
1. Entry Age Accrued Liability	$11,884,123	$10,399,637	$9,171,279
2. Market Value of Assets (MVA)	7,430,251	7,430,251	7,430,251
3. Unfunded Accrued Liability (UAL) [(1) – (2)]	$4,453,872	$2,969,386	$1,741,028
4. Funded Ratio [(2) / (1)]	62.5%	71.4%	81.0%

The "Risk Analysis" section of the report provides additional information regarding the sensitivity of valuation results to the expected investment return and other factors. Also provided in that section are measures of funded status that are appropriate for assessing the sufficiency of plan assets to cover estimated termination liabilities.

Projected Employer Contributions

The table below shows the required and projected employer contributions (before cost sharing) for the next six fiscal years. The projection assumes that all actuarial assumptions will be realized and that no further changes to assumptions, contributions, benefits, or funding will occur during the projection period. In particular, the investment return beginning with FY 2022-23 is assumed to be 6.80% per year, net of investment and administrative expenses. Future contribution requirements may differ significantly from those shown below. The actual long-term cost of the plan will depend on the actual benefits and expenses paid and the actual investment experience of the fund.

	Required Contribution	Projected Future Employer Contributions (Assumes 6.80% Return for Fiscal Year 2022-23 and Beyond)				
Fiscal Year	**2024-25**	**2025-26**	**2026-27**	**2027-28**	**2028-29**	**2029-30**
	Rate Plan 1029 Results					
Normal Cost %	11.88%	11.9%	11.9%	11.9%	11.9%	11.9%
UAL Payment	$229,246	$248,000	$266,000	$281,000	$316,000	$323,000

For ongoing plans, investment gains and losses are amortized using a 5-year ramp up. For more information, please see “Amortization of the Unfunded Actuarial Accrued Liability” under “Actuarial Methods” in Appendix A of the Section 2 Report. This method phases in the impact of the change in UAL over a 5-year period in order to reduce employer cost volatility from year to year. As a result of this methodology, dramatic changes in the required employer contributions in any one year are less likely. However, required contributions can change gradually and significantly over the next five years. In years when there is a large investment loss, the relatively small amortization payments during the ramp up period could result in contributions that are less than interest on the UAL (i.e. negative amortization) while the contribution impact of the increase in the UAL is phased in.

For projected contributions under alternate investment return scenarios, please see the “Future Investment Return Scenarios” in the “Risk Analysis” section. Our online pension plan projection tool, Pension Outlook, is available in the Employers section of the CalPERS website. Pension Outlook can help plan and budget pension costs under various scenarios.

Other Pooled Miscellaneous Risk Pool Rate Plans

All of the results presented in this Section 1 report, except those shown on this page, correspond to rate plan 1029. In many cases, employers have additional rate plans within the same risk pool. For cost analysis and budgeting it is useful to consider contributions for these rate plans as a whole rather than individually. The estimated contribution amounts and rates for all of the employer's rate plans in the Miscellaneous Risk Pool are shown below and assume that the total employer payroll within the Miscellaneous Risk Pool will grow according to the overall payroll growth assumption of 2.80% per year for three years. In a refinement since the prior year's report, Classic members who are projected to terminate employment are assumed to be replaced by PEPRA members.

	Fiscal Year 2023-24	Fiscal Year 2024-25
Estimated Combined Employer Contributions for all Pooled Miscellaneous Rate Plans		
Projected Payroll for the Contribution Year	$1,542,661	$1,726,138
Estimated Employer Normal Cost	$158,200	$171,480
Required Payment on Amortization Bases	$189,495	$231,338
Estimated Total Employer Contributions	$347,695	$402,818
Estimated Total Employer Contribution Rate (illustrative only)	22.54%	23.34%

Cost

Actuarial Determination of Plan Cost

Contributions to fund the plan are comprised of two components:

- Normal Cost, expressed as a percentage of total active payroll
- Amortization of the Unfunded Accrued Liability (UAL), expressed as a dollar amount

For fiscal years prior to 2015-16, the Amortization of UAL component was expressed as a percentage of total active payroll. Starting with FY 2015-16, the Amortization of UAL component was expressed as a dollar amount and invoiced on a monthly basis. There is an option to prepay this amount during July of each fiscal year.

The Normal Cost component is expressed as a percentage of active payroll with employer and employee contributions payable as part of the regular payroll reporting process.

The determination of both components requires complex actuarial calculations. The calculations are based on a set of actuarial assumptions which can be divided into two categories:

- Demographic assumptions (e.g., mortality rates, retirement rates, employment termination rates, disability rates)
- Economic assumptions (e.g., future investment earnings, inflation, salary growth rates)

These assumptions reflect CalPERS' best estimate of future experience of the plan and are long term in nature. We recognize that all assumptions will not be realized in any given year. For example, the investment earnings at CalPERS have averaged 6.9% over the 20 years ending June 30, 2022, yet individual fiscal year returns have ranged from -23.6% to +21.3%. In addition, CalPERS reviews all actuarial assumptions by conducting in-depth experience studies every four years, with the most recent experience study completed in 2021.

Changes Since the Prior Year's Valuation

Benefits

The standard actuarial practice at CalPERS is to recognize mandated legislative benefit changes in the first annual valuation following the effective date of the legislation. Voluntary benefit changes by plan amendment are generally included in the first valuation that is prepared after the amendment becomes effective, even if the valuation date is prior to the effective date of the amendment.

This valuation generally reflects plan amendments effective before the date of the report. Please refer to the "Plan's Major Benefit Options" in this report and Appendix B of the Section 2 Report for a summary of the plan provisions used in this valuation.

In 2022, SB 1168 increased the standard retiree lump sum death benefit from $500 to $2,000 for any death occurring on or after July 1, 2023. For pooled plans this is a Class 3 benefit and there is no normal cost surcharge. The impact on the unfunded liability is included in the pool's (gain)/loss.

Actuarial Methods and Assumptions

There are no significant changes to the actuarial methods or assumptions for the June 30, 2022 actuarial valuation.

Subsequent Events

This actuarial valuation report reflects fund investment return through June 30, 2022 and statutory/regulatory changes and board actions through January 2023.

During the time period between the valuation date and the publication of this report, inflation has been significantly higher than the expected inflation of 2.3% per annum. Since inflation influences cost-of-living increases for retirees and beneficiaries and active member pay increases, higher inflation is likely to put at least some upward pressure on contribution requirements and downward pressure on the funded status in the June 30, 2023 valuation. The actual impact of higher inflation on future valuation results will depend on, among other factors, how long higher inflation persists. At this time, we continue to believe the long-term inflation assumption of 2.3% is appropriate.

To the best of our knowledge, there have been no other subsequent events that could materially affect current or future certifications rendered in this report.

Assets and Liabilities

- **Breakdown of Entry Age Accrued Liability**
- **Allocation of Plan’s Share of Pool’s Experience/Assumption Change**
- **Development of Plan’s Share of Pool’s Market Value of Assets**
- **Schedule of Amortization Bases**
- **Amortization Schedule and Alternatives**
- **Employer Contribution History**
- **Funding History**

Breakdown of Entry Age Accrued Liability

Active Members	$4,304,188
Transferred Members	999,289
Separated Members	251,900
Members and Beneficiaries Receiving Payments	4,844,260
Total	$10,399,637

Allocation of Plan's Share of Pool's Experience/Assumption Change

It is the policy of CalPERS to ensure equity within the risk pools by allocating the pool's experience gains/losses and assumption changes in a manner that treats each employer equitably and maintains benefit security for the members of the System while minimizing substantial variations in employer contributions. The Pool's experience gains/losses and impact of assumption/method changes is allocated to the plan as follows:

1.	Plan's Accrued Liability	$10,399,637
2.	Projected UAL Balance at 6/30/2022	1,655,034
3.	Other UAL Adjustments (Golden Handshake, Prior Service Purchase, etc.)	0
4.	Adjusted UAL Balance at 6/30/2022 for Asset Share	1,655,034
5.	Pool's Accrued Liability[1]	22,021,735,002
6.	Sum of Pool's Individual Plan UAL Balances at 6/30/2022[1]	2,453,954,297
7.	Pool's 2021-22 Investment (Gain)/Loss[1]	2,614,071,182
8.	Pool's 2021-22 Non-Investment (Gain)/Loss[1]	309,490,972
9.	Plan's Share of Pool's Investment (Gain)/Loss: [(1) - (4)] ÷ [(5) - (6)] × (7)	1,168,197
10.	Plan's Share of Pool's Non-Investment (Gain)/Loss: (1) ÷ (5) × (8)	146,155
11.	Plan's New (Gain)/Loss as of 6/30/2022: (9) + (10)	1,314,352
12.	Increase in Pool's Accrued Liability due to Change in Assumptions[1]	0
13.	Plan's Share of Pool's Change in Assumptions: (1) ÷ (5) × (12)	0
14.	Increase in Pool's Accrued Liability due to Funding Risk Mitigation[1]	0
15.	Plan's Share of Pool's Change due to Funding Risk Mitigation: (1) ÷ (5) × (14)	0
16.	Offset due to Funding Risk Mitigation	0
17.	Plan's Investment (Gain)/Loss: (9) – (16)	1,168,197

[1] Does not include plans that transferred to Pool on the valuation date.

Development of the Plan's Share of Pool's Market Value of Assets

18.	Plan's UAL: (2) + (3) + (11) + (13) + (15)	$2,969,386
19.	Plan's Share of Pool's MVA: (1) - (18)	$7,430,251

Schedule of Amortization Bases

Below is the schedule of the plan's amortization bases. Note that there is a two-year lag between the valuation date and the start of the contribution year.

- The assets, liabilities, and funded status of the plan are measured as of the valuation date: June 30, 2022.
- The required employer contributions determined by the valuation are for the fiscal year beginning two years after the valuation date: FY 2024-25.

This two-year lag is necessary due to the amount of time needed to extract and test the membership and financial data, and the need to provide public agencies with their required employer contribution well in advance of the start of the fiscal year.

The Unfunded Accrued Liability (UAL) is used to determine the employer contribution and therefore must be rolled forward two years from the valuation date to the first day of the fiscal year for which the contribution is being determined. The UAL is rolled forward each year by subtracting the expected payment on the UAL for the fiscal year and adjusting for interest. The expected payment for the first fiscal year is determined by the actuarial valuation two years ago and the contribution for the second year is from the actuarial valuation one year ago. Additional discretionary payments are reflected in the Expected Payments column in the fiscal year they were made by the agency.

Reason for Base	Date Est.	Ramp Level 2024-25	Ramp Shape	Escala-tion Rate	Amort. Period	Balance 6/30/22	Expected Payment 2022-23	Balance 6/30/23	Expected Payment 2023-24	Balance 6/30/24	Minimum Required Payment 2024-25
Investment (Gain)/Loss	6/30/13	100%	Up/Down	2.80%	21	830,666	59,744	825,409	59,910	819,623	61,588
Non-Investment (Gain)/Loss	6/30/13	100%	Up/Down	2.80%	21	(7,964)	(573)	(7,913)	(574)	(7,858)	(590)
Share of Pre-2013 Pool UAL	6/30/13	No Ramp		2.80%	13	502,499	45,411	489,739	45,788	475,722	47,070
Assumption Change	6/30/14	100%	Up/Down	2.80%	12	363,350	38,940	347,816	39,372	330,779	40,475
Investment (Gain)/Loss	6/30/14	100%	Up/Down	2.80%	22	(654,718)	(45,732)	(651,978)	(45,820)	(648,960)	(47,103)
Non-Investment (Gain)/Loss	6/30/14	100%	Up/Down	2.80%	22	699	49	696	49	693	50
Investment (Gain)/Loss	6/30/15	100%	Up/Down	2.80%	23	416,362	28,299	415,429	28,330	414,401	29,124
Non-Investment (Gain)/Loss	6/30/15	100%	Up/Down	2.80%	23	(33,167)	(2,254)	(33,093)	(2,257)	(33,011)	(2,320)
Assumption Change	6/30/16	100%	Up/Down	2.80%	14	156,998	14,958	152,216	15,095	146,967	15,518
Investment (Gain)/Loss	6/30/16	100%	Up/Down	2.80%	24	539,410	35,738	539,157	35,748	538,876	36,749
Non-Investment (Gain)/Loss	6/30/16	100%	Up/Down	2.80%	24	(65,036)	(4,309)	(65,005)	(4,310)	(64,971)	(4,431)
Assumption Change	6/30/17	100%	Up/Down	2.80%	15	187,710	13,839	186,172	17,442	180,806	17,930
Investment (Gain)/Loss	6/30/17	100%	Up/Down	2.80%	25	(282,050)	(14,781)	(285,954)	(18,467)	(286,314)	(18,984)
Non-Investment (Gain)/Loss	6/30/17	100%	Up/Down	2.80%	25	(14,226)	(746)	(14,422)	(931)	(14,441)	(957)
Assumption Change	6/30/18	100%	Up/Down	2.80%	16	279,839	15,265	283,093	20,499	281,159	26,341
Investment (Gain)/Loss	6/30/18	100%	Up/Down	2.80%	26	(77,503)	(3,052)	(79,619)	(4,062)	(80,835)	(5,220)
Method Change	6/30/18	100%	Up/Down	2.80%	16	75,687	4,129	76,567	5,544	76,044	7,124
Non-Investment (Gain)/Loss	6/30/18	100%	Up/Down	2.80%	26	38,856	1,530	39,917	2,037	40,526	2,617
Investment (Gain)/Loss	6/30/19	80%	Up Only	0.00%	17	36,939	1,545	37,854	2,276	38,076	3,035
Non-Investment (Gain)/Loss	6/30/19	No Ramp		0.00%	17	36,886	3,457	35,822	3,396	34,748	3,396

Schedule of Amortization Bases (continued)

Reason for Base	Date Est.	Ramp Level 2024-25	Ramp Shape	Escala-tion Rate	Amort. Period	Balance 6/30/22	Expected Payment 2022-23	Balance 6/30/23	Expected Payment 2023-24	Balance 6/30/24	Minimum Required Payment 2024-25
Investment (Gain)/Loss	6/30/20	60%	Up Only	0.00%	18	170,942	3,744	178,697	7,346	183,257	11,019
Non-Investment (Gain)/Loss	6/30/20	No Ramp		0.00%	18	31,611	2,890	30,774	2,838	29,934	2,838
Assumption Change	6/30/21	No Ramp		0.00%	19	37,549	(6,860)	47,192	4,244	46,015	4,244
Net Investment (Gain)	6/30/21	40%	Up Only	0.00%	19	(866,899)	0	(925,848)	(19,901)	(968,239)	(39,802)
Non-Investment (Gain)/Loss	6/30/21	No Ramp		0.00%	19	(42,663)	0	(45,564)	(4,097)	(44,428)	(4,097)
Risk Mitigation	6/30/21	No Ramp		0.00%	0	258,269	(6,969)	283,033	292,498	0	0
Risk Mitigation Offset	6/30/21	No Ramp		0.00%	0	(265,012)	0	(283,033)	(292,498)	0	0
Investment (Gain)/Loss	6/30/22	20%	Up Only	0.00%	20	1,168,197	0	1,247,634	0	1,332,473	28,641
Non-Investment (Gain)/Loss	6/30/22	No Ramp		0.00%	20	146,155	0	156,094	0	166,708	14,991
Total						**2,969,386**	**184,262**	**2,980,882**	**189,495**	**2,987,750**	**229,246**

The (gain)/loss bases are the plan's allocated share of the risk pool's (gain)/loss for the fiscal year as disclosed in "Allocation of Plan's Share of Pool's Experience/Assumption Change" earlier in this section. These (gain)/loss bases will be amortized in accordance with the CalPERS amortization policy in effect at the time the base was established.

Amortization Schedule and Alternatives

The amortization schedule on the previous page(s) shows the minimum contributions required according to the CalPERS amortization policy. Many agencies have expressed a desire for a more stable pattern of payments or have indicated interest in paying off the unfunded accrued liabilities more quickly than required. As such, we have provided alternative amortization schedules to help analyze the current amortization schedule and illustrate the potential savings of accelerating unfunded liability payments.

Shown on the following page are future year amortization payments based on 1) the current amortization schedule reflecting the individual bases and remaining periods shown on the previous page, and 2) alternative "fresh start" amortization schedules using two sample periods that would both result in interest savings relative to the current amortization schedule. To initiate a fresh start, please contact the plan actuary.

The Current Amortization Schedule typically contains both positive and negative bases. Positive bases result from plan changes, assumption changes, method changes or plan experience that increase unfunded liability. Negative bases result from plan changes, assumption changes, method changes, or plan experience that decrease unfunded liability. The combination of positive and negative bases within an amortization schedule can result in unusual or problematic circumstances in future years, such as:

- When a negative payment would be required on a positive unfunded actuarial liability; or
- When the payment would completely amortize the total unfunded liability in a very short time period, and results in a large change in the employer contribution requirement.

In any year when one of the above scenarios occurs, the actuary will consider corrective action such as replacing the existing unfunded liability bases with a single "fresh start" base and amortizing it over an appropriate period.

The Current Amortization Schedule on the following page may appear to show that, based on the current amortization bases, one of the above scenarios will occur at some point in the future. It is impossible to know today whether such a scenario will in fact arise since there will be additional bases added to the amortization schedule in each future year. Should such a scenario arise in any future year, the actuary will take appropriate action based on guidelines in the CalPERS amortization policy.

Amortization Schedule and Alternatives (continued)

	Current Amortization Schedule		Alternate Schedules: 15 Year Amortization		Alternate Schedules: 10 Year Amortization	
Date	**Balance**	**Payment**	**Balance**	**Payment**	**Balance**	**Payment**
6/30/2024	2,987,750	229,246	2,987,750	313,426	2,987,750	407,826
6/30/2025	2,954,004	248,156	2,867,010	313,426	2,769,453	407,826
6/30/2026	2,898,419	266,468	2,738,059	313,426	2,536,312	407,826
6/30/2027	2,820,132	281,274	2,600,340	313,426	2,287,317	407,826
6/30/2028	2,721,219	316,151	2,453,256	313,426	2,021,391	407,826
6/30/2029	2,579,541	322,560	2,296,170	313,426	1,737,382	407,827
6/30/2030	2,421,603	329,150	2,128,402	313,426	1,434,059	407,827
6/30/2031	2,246,113	335,923	1,949,226	313,426	1,110,110	407,826
6/30/2032	2,051,692	332,792	1,757,866	313,426	764,133	407,826
6/30/2033	1,847,287	329,285	1,553,494	313,426	394,630	407,827
6/30/2034	1,632,607	321,308	1,335,224	313,426		
6/30/2035	1,411,570	307,826	1,102,112	313,425		
6/30/2036	1,189,436	284,089	853,149	313,425		
6/30/2037	976,726	203,035	587,257	313,426		
6/30/2038	833,321	186,582	303,283	313,425		
6/30/2039	697,165	173,809				
6/30/2040	564,950	165,819				
6/30/2041	432,005	141,326				
6/30/2042	315,330	117,250				
6/30/2043	215,601	204,472				
6/30/2044	18,952	19,586				
6/30/2045						
6/30/2046						
6/30/2047						
6/30/2048						
6/30/2049						
Total		**5,116,107**		**4,701,387**		**4,078,263**
Interest Paid		**2,128,357**		**1,713,637**		**1,090,513**
Estimated Savings				**414,720**		**1,037,844**

Employer Contribution History

The table below provides a recent history of the required and discretionary employer contributions for the plan. The required amounts are based on the actuarial valuation from two years prior without subsequent adjustments, if any. Additional discretionary payments before July 1, 2019 or after April 28, 2023 are not included.

Fiscal Year	Employer Normal Cost	Unfunded Liability Payment ($)	Additional Discretionary Payments
2016 - 17	8.377%	$58,780	N/A
2017 - 18	8.418%	74,583	N/A
2018 - 19	8.892%	98,590	N/A
2019 - 20	9.680%	124,217	0
2020 - 21	10.484%	143,614	0
2021 - 22	10.34%	171,278	0
2022 - 23	10.32%	198,091	0
2023 - 24	11.84%	189,495	
2024 - 25	11.88%	229,246	

Funding History

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

Valuation Date	Accrued Liability (AL)	Share of Pool's Market Value of Assets (MVA)	Unfunded Accrued Liability (UAL)	Funded Ratio	Annual Covered Payroll
06/30/2013	$6,061,483	$4,937,616	$1,123,867	81.5%	$1,052,811
06/30/2014	6,736,367	5,740,033	996,334	85.2%	1,088,753
06/30/2015	7,067,466	5,733,510	1,333,956	81.1%	1,103,888
06/30/2016	7,626,612	5,762,073	1,864,539	75.6%	1,069,586
06/30/2017	8,190,182	6,338,351	1,851,831	77.4%	1,063,075
06/30/2018	8,121,647	5,958,526	2,163,121	73.4%	1,062,157
06/30/2019	8,574,209	6,281,001	2,293,208	73.3%	1,046,882
06/30/2020	8,841,525	6,330,539	2,510,986	71.6%	1,036,499
06/30/2021	9,879,806	8,177,432	1,702,374	82.8%	878,968
06/30/2022	10,399,637	7,430,251	2,969,386	71.4%	914,933

Risk Analysis

- **Future Investment Return Scenarios**
- **Discount Rate Sensitivity**
- **Mortality Rate Sensitivity**
- **Maturity Measures**
- **Maturity Measures History**
- **Funded Status – Termination Basis**

Future Investment Return Scenarios

Analysis using the investment return scenarios from the Asset Liability Management process completed in 2021 was performed to determine the effects of various future investment returns on required employer contributions. The projections below reflect the impact of the CalPERS Funding Risk Mitigation policy. The projections also assume that all other actuarial assumptions will be realized and that no further changes in assumptions, contributions, benefits, or funding will occur.

The first table shows projected contribution requirements if the fund were to earn either 3.0% or 10.8% annually. These alternate investment returns were chosen because 90% of long-term average returns are expected to fall between them over the 20-year period ending June 30, 2042.

Assumed Annual Return FY 2022-23 through 2041-42	Projected Employer Contributions				
	2025-26	2026-27	2027-28	2028-29	2029-30
3.0% (5th percentile)					
Normal Cost Rate	11.9%	11.9%	11.9%	11.9%	11.9%
UAL Contribution	$255,000	$287,000	$323,000	$387,000	$429,000
10.8% (95th percentile)					
Normal Cost Rate	12.1%	12.4%	12.6%	12.9%	13.1%
UAL Contribution	$242,000	$247,000	$242,000	$248,000	$218,000

Required contributions outside of this range are also possible. In particular, whereas it is unlikely that investment returns will average less than 3.0% or greater than 10.8% over a 20-year period, the likelihood of a single investment return less than 3.0% or greater than 10.8% in any given year is much greater. The following analysis illustrates the effect of an extreme, single year investment return.

The portfolio has an expected volatility (or standard deviation) of 12.0% per year. Accordingly, in any given year there is a 16% probability that the annual return will be -5.2% or less and a 2.5% probability that the annual return will be -17.2% or less. These returns represent one and two standard deviations below the expected return of 6.8%.

The following table shows the effect of a one or two standard deviation investment loss in FY 2022-23 on the FY 2025-26 contribution requirements. Note that a single-year investment gain or loss decreases or increases the required UAL contribution amount incrementally for each of the next five years, not just one, due to the 5-year ramp in the amortization policy. However, the contribution requirements beyond the first year are also impacted by investment returns beyond the first year. Historically, significant downturns in the market are often followed by higher than average returns. Such investment gains would offset the impact of these single year negative returns in years beyond FY 2025-26.

Assumed Annual Return for Fiscal Year 2022-23	Required Employer Contributions	Projected Employer Contributions
	2024-25	2025-26
(17.2)% (2 standard deviation loss)		
Normal Cost Rate	11.88%	11.9%
UAL Contribution	$229,246	$292,000
(5.2)% (1 standard deviation loss)		
Normal Cost Rate	11.88%	11.9%
UAL Contribution	$229,246	$270,000

- Without investment gains (returns higher than 6.8%) in FY 2023-24 or later, projected contributions rates would continue to rise over the next four years due to the continued phase-in of the impact of the illustrated investment loss in FY 2022-23.
- The Pension Outlook Tool can be used to model projected contributions for these scenarios beyond FY 2025-26 as well as to model other investment return scenarios.

Discount Rate Sensitivity

The discount rate assumption is calculated as the sum of the assumed real rate of return and the assumed annual price inflation, currently 4.5% and 2.3%, respectively. Changing either the price inflation assumption or the real rate of return assumption will change the discount rate. The sensitivity of the valuation results to the discount rate assumption depends on which component of the discount rate is changed. Shown below are various valuation results as of June 30, 2022 assuming alternate discount rates by changing the two components independently. Results are shown using the current discount rate of 6.8% as well as alternate discount rates of 5.8% and 7.8%. The rates of 5.8% and 7.8% were selected since they illustrate the impact of a 1.0% increase or decrease to the 6.8% assumption.

Sensitivity to the Real Rate of Return Assumption

As of June 30, 2022	1% Lower Real Return Rate	Current Assumptions	1% Higher Real Return Rate
Discount Rate	**5.8%**	**6.8%**	**7.8%**
Price Inflation	2.3%	2.3%	2.3%
Real Rate of Return	**3.5%**	**4.5%**	**5.5%**
a) Total Normal Cost	23.67%	18.81%	15.11%
b) Accrued Liability	$11,884,123	$10,399,637	$9,171,279
c) Market Value of Assets	$7,430,251	$7,430,251	$7,430,251
d) Unfunded Liability/(Surplus) [(b) - (c)]	$4,453,872	$2,969,386	$1,741,028
e) Funded Ratio	62.5%	71.4%	81.0%

Sensitivity to the Price Inflation Assumption

As of June 30, 2022	1% Lower Price Inflation	Current Assumptions	1% Higher Price Inflation
Discount Rate	**5.8%**	**6.8%**	**7.8%**
Price Inflation	**1.3%**	**2.3%**	**3.3%**
Real Rate of Return	4.5%	4.5%	4.5%
a) Total Normal Cost	19.74%	18.81%	17.15%
b) Accrued Liability	$10,791,375	$10,399,637	$9,541,761
c) Market Value of Assets	$7,430,251	$7,430,251	$7,430,251
d) Unfunded Liability/(Surplus) [(b) - (c)]	$3,361,124	$2,969,386	$2,111,510
e) Funded Ratio	68.9%	71.4%	77.9%

Mortality Rate Sensitivity

The following table looks at the change in the June 30, 2022 plan costs and funded status under two different longevity scenarios, namely assuming post-retirement rates of mortality are 10% lower or 10% higher than our current mortality assumptions adopted in 2021. This type of analysis highlights the impact on the plan of a change in the mortality assumption.

As of June 30, 2022	10% Lower Mortality Rates	Current Assumptions	10% Higher Mortality Rates
a) Total Normal Cost	19.13%	18.81%	18.51%
b) Accrued Liability	$10,603,154	$10,399,637	$10,211,703
c) Market Value of Assets	$7,430,251	$7,430,251	$7,430,251
d) Unfunded Liability/(Surplus) [(b) - (c)]	$3,172,903	$2,969,386	$2,781,452
e) Funded Ratio	70.1%	71.4%	72.8%

Maturity Measures

As pension plans mature they become more sensitive to risks. Understanding plan maturity and how it affects the ability of a pension plan sponsor to tolerate risk is important in understanding how the pension plan is impacted by investment return volatility, other economic variables, and changes in longevity or other demographic assumptions.

Since it is the employer that bears the risk, it is appropriate to perform this analysis on a pension plan level considering all rate plans. The following measures are for one rate plan only. One way to look at the maturity level of CalPERS and its plans is to look at the ratio of a plan's retiree liability to its total liability. A pension plan in its infancy will have a very low ratio of retiree liability to total liability. As the plan matures, the ratio starts increasing. A mature plan will often have a ratio above 60%-65%.

Ratio of Retiree Accrued Liability to Total Accrued Liability	June 30, 2021	June 30, 2022
1. Retired Accrued Liability	$4,799,241	$4,844,260
2. Total Accrued Liability	9,879,806	10,399,637
3. Ratio of Retiree AL to Total AL [(1) / (2)]	0.49	0.47

Another measure of maturity level of CalPERS and its plans is to look at the ratio of actives to retirees, also called the support ratio. A pension plan in its infancy will have a very high ratio of active to retired members. As the plan matures and members retire, the ratio declines. A mature plan will often have a ratio near or below one.

To calculate the support ratio for the rate plan, retirees and beneficiaries receiving a continuance are each counted as one, even though they may have only worked a portion of their careers as an active member of this rate plan. For this reason, the support ratio, while intuitive, may be less informative than the ratio of retiree liability to total accrued liability above.

For comparison, the support ratio for all CalPERS public agency plans as of June 30, 2021, was 0.78 and was calculated consistently with how it is for the individual rate plan. Note that to calculate the support ratio for all public agency plans, a retiree with service from more than one CalPERS agency is counted as a retiree more than once.

Support Ratio	June 30, 2021	June 30, 2022
1. Number of Actives	13	13
2. Number of Retirees	16	16
3. Support Ratio [(1) / (2)]	0.81	0.81

Maturity Measures (continued)

The actuarial calculations supplied in this communication are based on various assumptions about long-term demographic and economic behavior. Unless these assumptions (e.g., terminations, deaths, disabilities, retirements, salary growth, investment return) are exactly realized each year, there will be differences on a year-to-year basis. The year-to-year differences between actual experience and the assumptions are called actuarial gains and losses and serve to lower or raise required employer contributions from one year to the next. Therefore, employer contributions will inevitably fluctuate, especially due to the ups and downs of investment returns.

Asset Volatility Ratio

Shown in the table below is the asset volatility ratio (AVR), which is the ratio of market value of assets to payroll. Plans that have higher AVR experience more volatile employer contributions (as a percentage of payroll) due to investment return. For example, a plan with AVR of 8 may experience twice the contribution volatility due to investment return volatility than a plan with AVR of 4. It should be noted that this ratio is a measure of the current situation. It increases over time but generally tends to stabilize as a plan matures.

Liability Volatility Ratio

Also shown in the table below is the liability volatility ratio (LVR), which is the ratio of accrued liability to payroll. Plans that have a higher LVR experience more volatile employer contributions (as a percentage of payroll) due to changes in liability. For example, a plan with LVR of 8 is expected to have twice the contribution volatility of a plan with LVR of 4. It should be noted that this ratio indicates a longer-term potential for contribution volatility, since the AVR, described above, will tend to move closer to the LVR as the funded ratio approaches 100%.

Contribution Volatility	June 30, 2021	June 30, 2022
1. Market Value of Assets	$8,177,432	$7,430,251
2. Payroll	878,968	914,933
3. Asset Volatility Ratio (AVR) [(1) / (2)]	9.3	8.1
4. Accrued Liability	$9,879,806	$10,399,637
5. Liability Volatility Ratio (LVR) [(4) / (2)]	11.2	11.4

Maturity Measures History

Valuation Date	Ratio of Retiree Accrued Liability to Total Accrued Liability	Support Ratio	Asset Volatility Ratio	Liability Volatility Ratio
06/30/2017	0.46	1.00	6.0	7.7
06/30/2018	0.38	1.06	5.6	7.6
06/30/2019	0.37	1.00	6.0	8.2
06/30/2020	0.38	1.00	6.1	8.5
06/30/2021	0.49	0.81	9.3	11.2
06/30/2022	0.47	0.81	8.1	11.4

Funded Status – Termination Basis

The funded status measured on a termination basis is an estimate of the financial position of the plan had the contract with CalPERS been terminated as of June 30, 2022. The accrued liability on a termination basis (termination liability) is calculated differently compared to the plan's ongoing funding liability. For the termination liability calculation, both compensation and service are frozen as of the valuation date and no future pay increases or service accruals are assumed. This measure of funded status is not appropriate for assessing the need for future employer contributions in the case of an ongoing plan, that is, for an employer that continues to provide CalPERS retirement benefits to active employees. Unlike the actuarial cost method used for ongoing plans, the termination liability is the present value of the benefits earned through the valuation date.

A more conservative investment policy and asset allocation strategy was adopted by the board for the Terminated Agency Pool. The Terminated Agency Pool has limited funding sources since no future employer contributions will be made. Therefore, expected benefit payments are secured by risk-free assets and benefit security for members is increased while limiting the funding risk. However, this asset allocation has a lower expected rate of return than the PERF and consequently, a lower discount rate is assumed. The lower discount rate for the Terminated Agency Pool results in higher liabilities for terminated plans.

The effective termination discount rate will depend on actual market rates of return for risk-free securities on the date of termination. As market discount rates are variable, the table below shows a range for the hypothetical termination liability based on the lowest and highest interest rates observed during an approximate 19-month period from 12 months before the valuation date to seven months after.

	Discount Rate: 1.75% Price Inflation: 2.50%			Discount Rate: 4.50% Price Inflation: 2.75%		
Market Value of Assets (MVA)	**Termination Liability[1,2]**	**Funded Ratio**	**Unfunded Termination Liability**	**Termination Liability[1,2]**	**Funded Ratio**	**Unfunded Termination Liability**
$7,430,251	$20,752,290	35.8%	$13,322,039	$13,219,665	56.2%	$5,789,414

[1] The termination liabilities calculated above include a 5% contingency load. The contingency load and other actuarial assumptions can be found in Appendix A of the Section 2 report.

[2] The discount rate used for termination valuations is a weighted average of the 10-year and 30-year U.S. Treasury yields where the weights are based on matching asset and liability durations as of the termination date. The discount rates used in the table are based on 20-year Treasury bonds, rounded to the nearest quarter percentage point, which is a good proxy for most plans. The 20-year Treasury yield was 3.38% on June 30, 2022, the valuation date.

In order to terminate the plan, first contact our Pension Contract Services unit to initiate a Resolution of Intent to Terminate. The completed Resolution will allow the plan actuary to provide a preliminary termination valuation with a more up-to-date estimate of the plan liabilities. Before beginning this process, please consult with the plan actuary.

Participant Data

The table below shows a summary of the plan's member data upon which this valuation is based:

	June 30, 2021	June 30, 2022
Active Members		
Counts	13	13
Average Attained Age	47.4	48.4
Average Entry Age to Rate Plan	31.7	31.7
Average Years of Credited Service	16.3	17.3
Average Annual Covered Pay	$67,613	$70,379
Annual Covered Payroll	$878,968	$914,933
Present Value of Future Payroll	$7,785,348	$7,772,496
Transferred Members	7	6
Separated Members	8	9
Retired Members and Beneficiaries*		
Counts	16	16
Average Annual Benefits	$21,932	$22,646
Total Annual Benefits	$350,919	$362,330

Counts of members included in the valuation are counts of the records processed by the valuation. Multiple records may exist for those who have service in more than one valuation group. This does not result in double counting of liabilities.

* Values include community property settlements.

List of Class 1 Benefit Provisions

This plan has the additional Class 1 Benefit Provisions:

- None

Plan's Major Benefit Options

Shown below is a summary of the major optional benefits for which the agency has contracted. A description of principal standard and optional plan provisions is in Section 2.

	Benefit Group					
Member Category	Misc	Misc	Misc	Misc	Misc	
Demographics						
Actives	No	No	No	No	Yes	
Transfers/Separated	No	No	No	No	Yes	
Receiving	Yes	Yes	Yes	Yes	Yes	
Benefit Provision						
Benefit Formula					2% @ 55	
Social Security Coverage					Yes	
Full/Modified					Full	
Employee Contribution Rate					7.00%	
Final Average Compensation Period					Three Year	
Sick Leave Credit					Yes	
Non-Industrial Disability					Standard	
Industrial Disability					No	
Pre-Retirement Death Benefits						
Optional Settlement 2					Yes	
1959 Survivor Benefit Level					No	
Special					No	
Alternate (firefighters)					No	
Post-Retirement Death Benefits						
Lump Sum	$5000	$5000	$5000	$5000	$5000	
Survivor Allowance (PRSA)	No	No	No	No	No	
COLA	2%	2%	2%	2%	2%	

Section 2

CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Risk Pool Actuarial Valuation Information

Section 2 may be found on the CalPERS website (www.calpers.ca.gov) in the Forms and Publications section

McKinleyville Community Services District

GASB 75 Disclosures for Fiscal Year Ending June 30, 2023
Based on Roll-Forward of OPEB Valuation as of June 30, 2021

CONTACT
Evi Laksana, ASA, MAAA
evi@govinvest.com
(424) 877-2393

GovInvest
The Financial Forecasting Authority

Version 1.0

Table of Contents

Actuarial Certification

Ms. Nicole Alvarado
McKinleyville Community Services District
1656 Sutter Road
McKinleyville, CA 95519

GovInvest has been engaged by McKinleyville Community Services District to complete an actuarial valuation for the McKinleyville Community Services District OPEB Plan as of June 30, 2021 which will be used as the basis of the financial accounting disclosure for fiscal year ending June 30, 2023 in accordance with GASB Statement No. 75 (Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions).

The purpose of this report is to provide the District with recommended contributions and the required information needed for financial statement disclosure purposes. The use of this report for any other purpose may not be appropriate. The content of this report may not be modified, reproduced, or provided to third parties, either in whole or in part, without our permission. GovInvest is not responsible for usage, inference, or misinterpretation of this report by third parties.

Results presented in this report are based on the census data, substantive plan provisions, and healthcare cost information provided by the District and/or their benefit consultants. All information provided has been reviewed for reasonableness and clarifications or corrections have been requested where appropriate. We have not audited the information at the source, and therefore, do not accept responsibility for the accuracy or completeness of the data on which the information is based. Assumptions made related to missing data have been identified in this report. We are satisfied that the information provided is suitable and sufficient for the purpose of the measurement.

The valuation results were prepared using leased actuarial modeling software that produces results consistent with the purpose of this valuation and meets applicable regulatory requirements. The vendor is responsible for the development, maintenance, and improvement of these models. The models include comprehensive technical documentations that outline how the calculations are performed along with sample life outputs that allow the users to confirm with high degree of accuracy how the programmed benefit is applied to an individual with the proposed decrements and other assumptions. The actuarial team loads the participant data, programs the benefit provisions and proposed assumptions into the model and review sample life outputs and results under the supervision of credentialed actuaries who are proficient users of the software. We are not aware of any material limitations in the model nor any material inconsistencies in the assumptions used within the model.

The discount rate, other economic, and demographic assumptions have been selected by the District with our recommendations and concurrence. We believe each assumption is reasonable based on its own merits and in combination represents reasonable expected experience of the Plan. All calculations have been completed in accordance with generally accepted actuarial principles and practices.

Future actuarial measurements may differ significantly from current measurements due to factors such as actual plan experience that differs from that anticipated by the economic and demographic assumptions as well as changes in future assumptions, substantive plan provisions, and/or applicable law. We have not analyzed the potential range of such differences due to the limited scope of our engagement. To our knowledge, there are no significant events prior to the current year's Measurement Date or as of the date of this report that may materially affect the results presented herein.

The undersigned meets the General Qualification Standards of the American Academy of Actuaries for the purpose of issuing Statement of Actuarial Opinion in the United States. Neither GovInvest nor any of its employees have any relationship with the Plan Sponsor that could impair or appear to impair the objectivity of this report.

Evi Laksana, ASA, MAAA
September 29, 2023

GovInvest
The Financial Forecasting Authority

Section 1: Executive Summary

McKinleyville Community Services District (the "District") sponsors a single-employer defined benefit OPEB plan that provides medical and prescription drug coverage at retirement. Employees may continue health coverage with the District at retirement for themselves, their spouses, and dependents for life once they meet certain eligibility requirements and as long as required contributions are made.

The results presented in this report are based on a roll-forward of the June 30, 2021 valuation with liabilities and assets measured as of June 30, 2023, for use in the District's accrual-based financial statement for the fiscal year ending June 30, 2023.

The actuarial valuation is based on substantive plan provisions outlined in Section 6 of the McKinleyville Community Services District GASB 75 Disclosures for the fiscal year ending June 30, 2022. The valuation requires assumptions which are briefly listed in Section 7. For complete information on the actuarial methods and assumptions, refer to the McKinleyville Community Services District GASB 75 Disclosures for the fiscal year ending June 30, 2022 report.

The Plan Sponsor's next full valuation is as of June 30, 2023 with liabilities and assets measured as of June 30, 2024 for reporting in the Plan Sponsor's accrual-based financial statements for the fiscal year ending June 30, 2024.

Changes Since Prior Valuation

The District's Net OPEB Liability has decreased from $6,942,623 as of June 30, 2022 to $4,276,952 as of June 30, 2023, which is attributable to a combination of the following factor(s):

1. The District recently established an OPEB Trust in FY 2022/23 which leads to a reduction in the Net OPEB Liability.
2. Lower healthcare costs increase than expected that produces a liability decrease.
3. Increase in Single Equivalent Discount Rate (SEDR) based on the cross-over test, municipal bond index, and expected rate of return of the Trust, that produce a liability decrease.

Summary of Results

Presented below is the summary of results for the current fiscal year compared to the prior fiscal year.

Fiscal Years	2022/23	2021/22
Valuation Date (VD)	June 30, 2021	June 30, 2021
Measurement Date (MD)	June 30, 2023	June 30, 2022
Membership Data as of Valuation Date		
Inactive employees or beneficiaries currently receiving benefits	8	8
Inactive employees entitled to but not yet receiving benefits	0	0
Active employees	24	24
Total membership	32	32
Discount Rate at Measurement Date		
Municipal Bond Index Rate	3.86%	3.69%
Long-term Expected Asset Return	5.00%	N/A[1]
Year in which Fiduciary Net Position is projected to be depleted	2044	N/A
Single Equivalent Discount Rate (SEDR)	4.10%	3.69%
Net OPEB Liability as of Measurement Date		
Total OPEB Liability (TOL)	$ 6,831,080	$ 6,942,623
Fiduciary Net Position (FNP)	(2,554,128)	(0)
Net OPEB Liability (NOL = TOL – FNP)	$ 4,276,952	$ 6,942,623
Funded Status (FNP / TOL)	37.4%	0.0%

[1] The OPEB Plan was unfunded as of June 30, 2022.

Fiscal Years	2022/23		2021/22	
Valuation Date (VD)		June 30, 2021		June 30, 2021
Measurement Date (MD)		June 30, 2023		June 30, 2022
OPEB Expense / (Income) by Fiscal Year	$	202,578	$	467,572
Balance of unamortized Deferred Inflows at MD	$	(5,797,166)	$	(5,972,970)
Balance of unamortized Deferred Outflows at MD	$	2,504,367	$	2,872,637
Actuarially Determined Contribution by Fiscal Year[2]	$	N/A	$	N/A

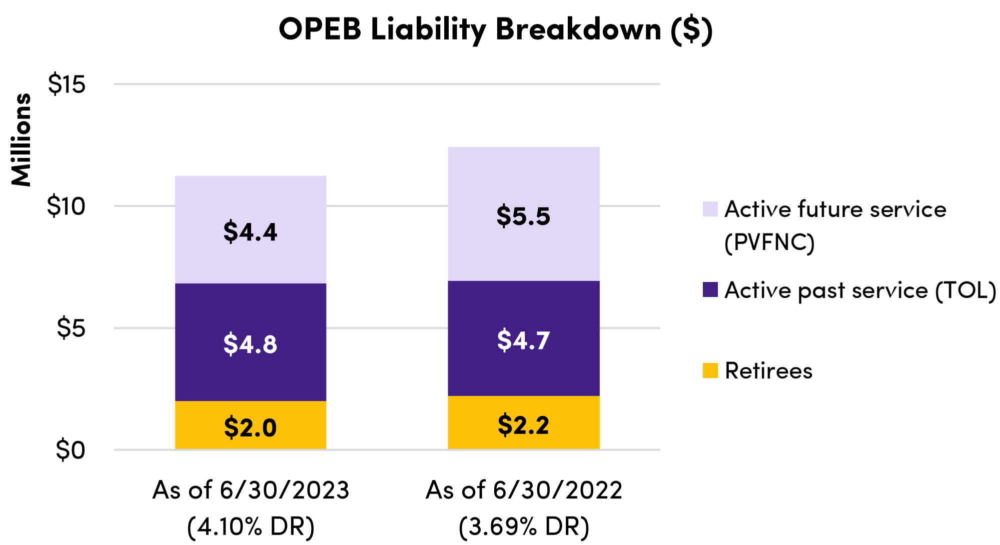
[2] No Actuarially Determined Contribution (ADC) has been calculated prior to fiscal year ending June 30, 2023. The District has recently established a trust in FY 2022/23.

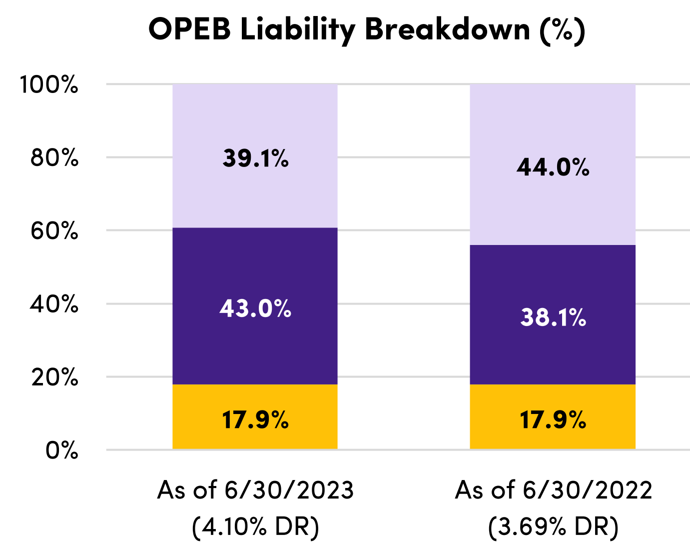
Below is a breakdown of the OPEB liability allocated to past and current service as of the Measurement Date compared to the prior Measurement Date. The liability below includes explicit subsidy (if any) and implicit subsidy. Refer to the Substantive Plan Provisions section for complete information on the District benefit provisions.

Present Value of Future Benefits (PVFB)	As of June 30, 2023	As of June 30, 2022
Active employees	$ 9,220,725	$ 10,191,060
Retired employees	2,007,609	2,217,542
Total PVFB	**$ 11,228,334**	**$ 12,408,602**

Total OPEB Liability (TOL)	As of June 30, 2023	As of June 30, 2022
Active employees	$ 4,823,471	$ 4,725,081
Retired employees	2,007,609	2,217,542
Total TOL	**$ 6,831,080**	**$ 6,942,623**

	As of June 30, 2023	As of June 30, 2022
Discount Rate	4.10%	3.69%





Section 2: Financial Disclosures

This section provides the necessary accounting disclosures for the District's financial reports as shown in the following tables:

Summary of Membership and Assumptions

The table below shows the number of employees covered by the benefit terms as of June 30, 2021.

Table 1 – Plan Demographics

Inactive employees or beneficiaries currently receiving benefits	8
Inactive employees entitled to but not yet receiving benefits	0
Active employees	24
Total membership	32

The Total OPEB Liability (TOL) as of June 30, 2021 was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified. For a complete list of assumptions, refer to Section 7.

Table 2 – Brief Summary of Assumptions

Inflation	2.30%
Payroll growth	2.80% wage inflation plus seniority, merit, and promotion increases based on November 2021 CalPERS Experience Study and Review of Actuarial Assumptions
Investment rate of return	5.00%
Discount rate	4.10%[3]
Medical/prescription drug trend rates	Based on 2021 Getzen model that reflects actual premium increases through 2023[4] followed by 5.50% (non-Medicare) / 5.30% (Medicare) in 2023 decreasing gradually to an ultimate rate of 4.04% in 2075

[3] The Trust is expected to be depleted by the year ending 2044 based on the assumptions that the District will contribute the retiree healthcare expenses to the Trust and request reimbursements from the Trust plus ad-hoc additional pre-funding contribution.

[4] Actual premium increases from 2021 to 2022 reflected in last year's valuation and from 2022 to 2023 used in this roll-forward report are as follows:

- From 2021 to 2022: (a) Non-Medicare: -5.00% Advantage PPO & CDHP, 2.20% CalCare HMO and (b) Medicare: -18.50% Advantage PPO, -37.10% CalCare HMO, -10.40% CDHP (all mapped to United Healthcare PPO).
- From 2022 to 2023: (a) Non-Medicare: -10.00% Advantage PPO & CDHP, 5.50% CalCare HMO and (b) Medicare: 3.10% United Healthcare PPO.

GovInvest The Financial Forecasting Authority

OPEB Expense

The table below shows a comparison of the OPEB Expense recognized by the District for the current and prior fiscal years.

Table 3 - OPEB Expense

Fiscal Years	2022/23		2021/22	
SEDR as of beginning of year		3.69%		1.92%
SEDR as of end of year		4.10%		3.69%
Service Cost	$	408,820	$	618,445
Interest on TOL and Service Cost		268,056		202,404
Changes of benefit terms		0		0
Projected earnings on OPEB Plan investments		(61,727)		0
OPEB Plan administrative expenses net of all revenues		549		0
Current period recognition of Deferred Inflows / Outflows of Resources				
Difference between expected and actual experience in the TOL	$	(730,154)	$	(713,661)
Changes of assumptions or other inputs		315,604		360,384
Net difference between the projected and actual earnings on OPEB Plan investments		1,430		0
Other		0		0
Total current period recognition	$	(413,120)	$	(353,277)
OPEB Expense	$	202,578	$	467,572

GovInvest The Financial Forecasting Authority

Schedule of Changes in Net OPEB Liability

Fiscal Year Ending June 30	2023	2022	2021	2020	2019
Measurement Period Ending June 30	2023	2022	2021	2020	2019
Total OPEB Liability (TOL)					
Service Cost	$ 408,820	$ 618,445	$ 526,898	$ 482,408	$ 493,346
Interest on TOL and Service Cost	268,056	202,404	221,939	320,814	288,256
Changes of benefit terms	0	0	0	0	0
Difference between expected & actual experience	(164,934)	(4,584,910)	11,520	(2,563,217)	0
Changes of assumptions or other inputs	(447,802)	870,713	794,185	2,063,476	(102,116)
Benefit payments	(175,683)[5]	(174,114)	(152,581)	(150,475)	(138,067)
Net change in TOL	**$ (111,543)**	**$ (3,067,462)**	**$ 1,401,961**	**$ 153,006**	**$ 541,419**
TOL – beginning	**$ 6,942,623**	**$ 10,010,085**	**$ 8,608,124**	**$ 8,455,118**	**$ 7,913,699**
TOL – ending	**$ 6,831,080**	**$ 6,942,623**	**$ 10,010,085**	**$ 8,608,124**	**$ 8,455,118**
Plan Fiduciary Net Position (FNP)					
Contributions – employer	$ 2,675,783	$ 174,114	$ 152,581	$ 150,476	$ 138,067
Contributions - employees	0	0	0	0	0
Benefit payments	(175,683)	(174,114)	(152,581)	(150,476)	(138,067)
Net investment income	54,577	0	0	0	0
Trust administrative expenses	(549)	0	0	0	0
Net change in Plan FNP	**$ 2,554,128**	**$ 0**	**$ 0**	**$ 0**	**$ 0**
FNP – beginning	**$ 0**	**$ 0**	**$ 0**	**$ 0**	**$ 0**
FNP – ending	**$ 2,554,128**	**$ 0**	**$ 0**	**$ 0**	**$ 0**
Net OPEB Liability – ending	**$ 4,276,952**	**$ 6,942,623**	**$ 10,010,085**	**$ 8,608,124**	**$ 8,455,118**
FNP as % of TOL	37.4%	0.0%	0.0%	0.0%	0.0%
Covered-employee payroll – measurement period	$ 1,836,084	$ 1,548,839	$ 1,389,995	$ 1,362,167	$ 1,511,378
NOL as % of covered payroll	232.9%	448.2%	720.2%	631.9%	559.4%

[5] Based on explicit benefit payment of $134,581 and estimated implicit subsidy payment of $41,102.

Schedule of Changes in Net OPEB Liability (Continued)

Fiscal Year Ending June 30	2018
Measurement Period Ending June 30	2018
Total OPEB Liability (TOL)	
Service Cost	$ 478,977
Interest on TOL and Service Cost	253,523
Changes of benefit terms	0
Difference between expected & actual experience	0
Changes of assumptions or other inputs	0
Benefit payments	(124,622)
Net change in TOL	**$ 607,878**
TOL – beginning	**$ 7,305,821**
TOL – ending	**$ 7,913,699**
Plan Fiduciary Net Position (FNP)	
Contributions – employer	$ 124,622
Contributions - employees	0
Benefit payments	(124,622)
Net investment income	0
Trust administrative expenses	0
Net change in Plan FNP	**$ 0**
FNP – beginning	**$ 0**
FNP – ending	**$ 0**
Net OPEB Liability – ending	**$ 7,913,699**
FNP as % of TOL	0.0%
Covered-employee payroll – measurement period	$ 1,470,927
NOL as % of covered payroll	538.0%

GovInvest
The Financial Forecasting Authority

Net OPEB Liability Sensitivity

The following presents the Net OPEB Liability of the District, as well as what the District's Net OPEB Liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current discount rate as of June 30, 2023.

Table 4 – Net OPEB Liability Sensitivity (Discount Rate)

	1% Decrease (3.10%)	Discount Rate (4.10%)	1% Increase (5.10%)
Net OPEB Liability / (Asset)	$ 5,445,989	$ 4,276,952	$ 3,338,629

The following presents the Net OPEB Liability of the District, as well as what the District's Net OPEB Liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates as of June 30, 2023.

Table 5 – Net OPEB Liability Sensitivity (Healthcare Trend Rates)

	1% Decrease	Healthcare Trend Rates[6]	1% Increase
Net OPEB Liability / (Asset)	$ 3,025,500	$ 4,276,952	$ 5,930,833

[6] Comparison of Baseline, 1% Decrease, and 1% Increase in healthcare trend rates assumptions are as shown below. Refer to Section 6 for the actual premium increases from 2021 to 2022 reflected in last year's valuation and from 2022 to 2023 used in this roll-forward report.

1% Decrease	Baseline	1% Increase
Actual premium increases from 2021 through 2023 less 1% followed by 4.50% (non-Medicare) / 4.30% (Medicare) decreasing to 3.04% ultimate rate in 2075	Actual premium increases from 2021 through 2023 followed by 5.50% (non-Medicare) / 5.30% (Medicare) decreasing to 4.04% ultimate rate in 2075	Actual premium increases from 2021 to 2023 plus 1% followed by 6.50% (non-Medicare) / 6.30% (Medicare) decreasing to 5.04% ultimate rate in 2075

Deferred Inflows and Deferred Outflows of Resources Related to OPEB

The tables below show changes in the Net OPEB Liability that have not been included in the OPEB expense for the following items:

1. Differences between expected and actual experience of the OPEB plan
2. Changes in assumptions
3. Differences between projected and actual earnings on the OPEB plan investments

The initial amortization base for the first two items above are amortized linearly over the average expected remaining service lives of active and inactive employees. The difference between projected and actual earnings on the OPEB plan investments is amortized linearly over five years.

Table 6 - Historical Deferred Inflows and Outflows

Differences between expected and actual experience

Measurement Period Ending	Fiscal Year Ending	Initial Balance	Initial Amortization Period	Annual Recognition	Recognized in OPEB Expense through June 30, 2023	Unamortized Balance as of June 30, 2023
6/30/2018	6/30/2018	$ 0	N/A	$ 0	$ 0	$ 0
6/30/2019	6/30/2019	$ 0	N/A	$ 0	$ 0	$ 0
6/30/2020	6/30/2020	$ (2,563,217)	10.00	$ (256,322)	$ (1,025,288)	$ (1,537,929)
6/30/2021	6/30/2021	$ 11,520	10.00	$ 1,152	$ 3,456	$ 8,064
6/30/2022	6/30/2022	$ (4,584,910)	10.00	$ (458,491)	$ (916,982)	$ (3,667,928)
6/30/2023	6/30/2023	$ (164,934)	10.00	$ (16,493)	$ (16,493)	$ (148,441)

Changes in assumptions or other inputs

Measurement Period Ending	Fiscal Year Ending	Initial Balance	Initial Amortization Period	Annual Recognition	Recognized in OPEB Expense through June 30, 2023	Unamortized Balance as of June 30, 2023
6/30/2018	6/30/2018	$ 0	N/A	$ 0	$ 0	$ 0
6/30/2019	6/30/2019	$ (102,116)	8.20	$ (12,454)	$ (62,270)	$ (39,846)
6/30/2020	6/30/2020	$ 2,063,476	10.00	$ 206,348	$ 825,392	$ 1,238,084
6/30/2021	6/30/2021	$ 794,185	10.00	$ 79,419	$ 238,257	$ 555,928
6/30/2022	6/30/2022	$ 870,713	10.00	$ 87,071	$ 174,142	$ 696,571
6/30/2023	6/30/2023	$ (447,802)	10.00	$ (44,780)	$ (44,780)	$ (403,022)

Differences between projected and actual earnings on OPEB plan investments

Measurement Period Ending	Fiscal Year Ending	Initial Balance	Initial Amortization Period	Annual Recognition	Recognized in OPEB Expense through June 30, 2023	Unamortized Balance as of June 30, 2023
6/30/2018	6/30/2018	$ 0	5.00	$ 0	$ 0	$ 0
6/30/2019	6/30/2019	$ 0	5.00	$ 0	$ 0	$ 0
6/30/2020	6/30/2020	$ 0	5.00	$ 0	$ 0	$ 0
6/30/2021	6/30/2021	$ 0	5.00	$ 0	$ 0	$ 0
6/30/2022	6/30/2022	$ 0	5.00	$ 0	$ 0	$ 0
6/30/2023	6/30/2023	$ 7,150	5.00	$ 1,430	$ 1,430	$ 5,720

The table below shows the unamortized balance of Deferred Inflows and Outflows of Resources as of June 30, 2023 for financial statement disclosure for the fiscal year ending June 30, 2023.

Table 7 - Unamortized Balance of Deferred Inflows and Outflows

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 8,064	$ (5,354,298)
Changes in assumptions or other inputs	2,490,583	(442,868)
Net difference between projected and actual earnings on OPEB plan investments	5,720	0
Employer contribution subsequent to the Measurement Date	0	0
Total	**$ 2,504,367**	**$ (5,797,166)**

Schedule of future annual amortizations of Deferred Inflows and Outflows that will be recognized in future OPEB expense is as shown below.

Table 8 - Schedule of Future Deferred Inflows and Outflows Amortization

Measurement Period Ending	Amounts
2024	$ (413,120)
2025	$ (413,120)
2026	$ (413,120)
2027	$ (403,150)
2028	$ (402,096)
Thereafter	$ (1,248,193)

Section 3: Asset Information

Funding Policy

The District has recently established an OPEB Trust (in FY 2022/23) that is invested in California Employers' Retiree Benefit Trust (CERBT) Strategy 3, which is a qualified irrevocable trust. The District intends to deposit the retiree healthcare expenses to the Trust, request reimbursements from the Trust, and make additional pre-funding contribution on an ad-hoc basis as funds are available.

Asset Breakdown[7]

As of	June 30, 2023	June 30, 2022
Assets		
Cash and cash equivalents	$ 0	$ 0
Receivables		
Investments		
Global equity	$ 587,449	$ 0
Fixed income	1,302,605	0
Treasury Inflation-Protected Securities (TIPS)	229,872	
Real Estate Investment Trusts (REITs)	357,578	
Commodities	76,624	0
Total investments	$ 2,554,128	$ 0
Total assets	$ 2,554,128	$ 0
Liabilities		
Accounts payable	$ 0	$ 0
Total liabilities	$ 0	$ 0
Net asset available for benefits	$ 2,554,128	$ 0

[7] Asset breakdown by investment class is based on the target allocation for CERBT Strategy 3 as of June 30, 2023.

Reconciliation of Asset

Measurement Periods	2022/23	2021/22
Additions		
Contributions received		
Employer	$ 2,675,783	$ 0
Employees	0	0
Total contributions	$ 2,675,783	$ 0
Investment income		
Interest and dividend	0	0
Net increase/(decrease) in fair value of investments	54,577	0
Accrued income	0	0
Investment expense	0	0
Net investment income	$ 54,577	$ 0
Total additions	$ 54,577	$ 0
Deductions		
Benefit payments net of retiree contributions	$ (175,683)	$ 0
Administrative expenses	(549)	0
Total deductions	$ (176,232)	$ 0
Change in net position	$ 2,554,128	$ 0
Net position – beginning of year	$ 0	$ 0
Net position – end of year	$ 2,554,128	$ 0

GovInvest
The Financial Forecasting Authority

Section 4: Actuarially Determined Contribution

Actuarially Determined Contribution (ADC) is the recommended contribution that, if paid on an ongoing basis, is expected to provide sufficient resources to fund (a) future normal cost (cost for new service) and (b) the amortized unfunded liabilities (cost for past service). There is no requirement to fund OPEB benefit under GASB 75 and it is up to the Plan Sponsor's discretion to determine the OPEB contributions based on their fiscal situation.

Contribution Years	2023/24	2024/25
Funding discount rate	5.00%	5.00%
Amortization method	Level % of Pay	Level % of Pay
Payroll growth	2.80%	2.80%
Amortization period	20 years	19 years
Actuarial Accrued Liability (AAL) – beginning of year[8]	$ 5,976,054	$ 6,388,178
Actuarial Value of Assets (AVA) – beginning of year[9]	(2,554,128)	(2,680,526)
Unfunded AAL (UAAL) – beginning of year	$ 3,421,926	$ 3,707,652
Normal Cost – beginning of year	$ 295,406	$ 306,409
Amortization of UAAL – beginning of year	207,669	234,528
Total Normal Cost and amortization of UAAL	$ 503,075	$ 540,937
Interest adjustment for end of year payment	25,154	27,047
Administrative expenses	1,277	1,340
Actuarially Determined Contribution (ADC)	$ 528,229	$ 567,984
Expected benefit payment	$ 192,111	$ 203,371

[8] Fiscal years 2023/24 and 2024/25 AALs ad of beginning of year is based on June 30, 2021 OPEB valuation results projected to June 30, 2023 and June 30, 2024 on a "no gain/loss" basis.

[9] Fiscal year 2023/24 AVA as of beginning of year is based on June 30, 2023 market value of asset. Fiscal year 2024/25 AVA as of beginning of year is projected from June 30, 2023 market value of asset assuming 5.00% investment income, District contribution equals to the expected benefit payment with no additional contribution to the Trust ($192,111 total District contribution), and 0.05% Trust administrative expense applied to the beginning of year asset balance.

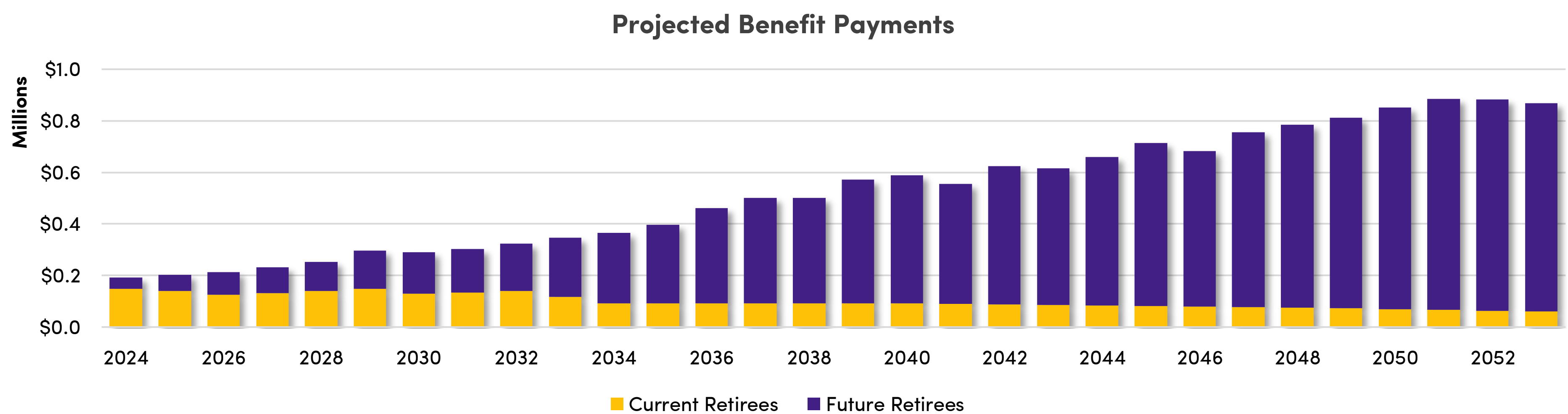
Section 5: Projected Benefit Payments

The below table shows the projected benefit payments for the next 30 years for a closed group of participants (both active employees and existing retirees) who are included in the census data as of June 30, 2021. This exhibit is provided for informational purposes only and is not a required disclosure under GASB 75. Projected benefit payments below include both explicit (if any) and implicit subsidies (as applicable).

FYE	Future Retirees	Current Retirees	Total
2024	$ 44,061	$ 148,050	$ 192,111
2025	$ 64,158	$ 139,213	$ 203,371
2026	$ 88,129	$ 124,983	$ 213,112
2027	$ 98,893	$ 132,702	$ 231,595
2028	$ 113,077	$ 140,438	$ 253,515
2029	$ 147,555	$ 148,488	$ 296,043
2030	$ 161,514	$ 128,654	$ 290,168
2031	$ 168,785	$ 134,293	$ 303,078
2032	$ 183,904	$ 139,461	$ 323,365
2033	$ 228,937	$ 117,153	$ 346,090

FYE	Future Retirees	Current Retirees	Total
2034	$ 273,919	$ 91,451	$ 365,370
2035	$ 304,937	$ 92,296	$ 397,233
2036	$ 369,402	$ 92,817	$ 462,219
2037	$ 407,244	$ 93,001	$ 500,245
2038	$ 408,589	$ 92,821	$ 501,410
2039	$ 479,743	$ 92,258	$ 572,001
2040	$ 497,334	$ 91,321	$ 588,655
2041	$ 464,392	$ 90,046	$ 554,438
2042	$ 534,962	$ 88,465	$ 623,427
2043	$ 529,885	$ 86,612	$ 616,497

FYE	Future Retirees	Current Retirees	Total
2044	$ 574,985	$ 84,554	$ 659,539
2045	$ 632,396	$ 82,345	$ 714,741
2046	$ 602,031	$ 80,018	$ 682,049
2047	$ 678,082	$ 77,574	$ 755,656
2048	$ 709,319	$ 75,014	$ 784,333
2049	$ 740,383	$ 72,324	$ 812,707
2050	$ 781,116	$ 69,469	$ 850,585
2051	$ 818,911	$ 66,418	$ 885,329
2052	$ 820,216	$ 63,189	$ 883,405
2053	$ 809,228	$ 59,737	$ 868,965

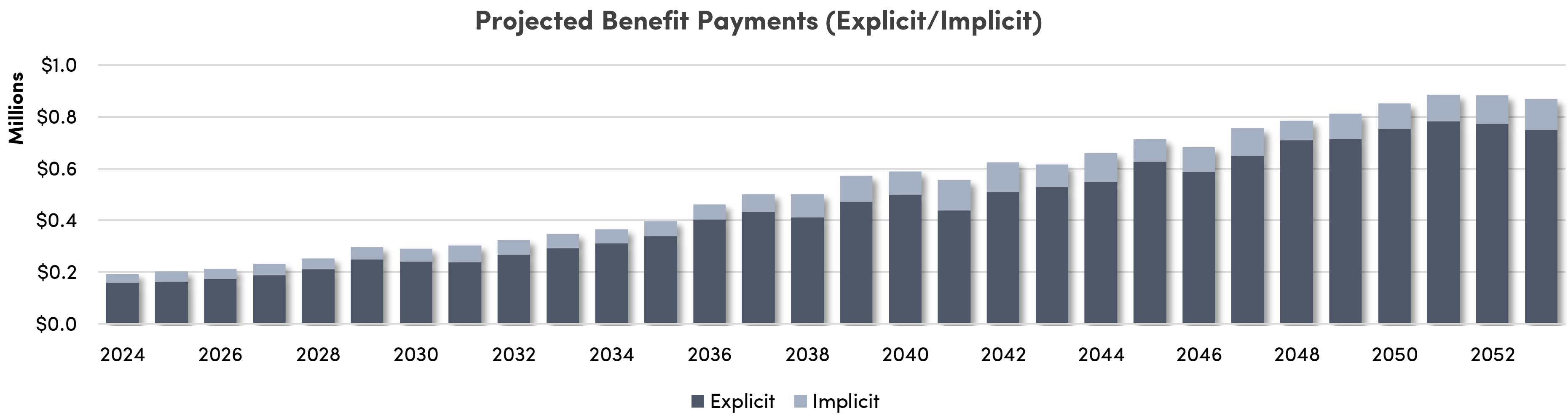


The following table splits the projected benefit payments for the next 30 years between the explicit and implicit subsidies for a closed group of participants (both active employees and existing retirees) who are included in the census data as of June 30, 2021.

FYE	Explicit	Implicit	Total
2024	$ 151,757	$ 40,354	$ 192,111
2025	$ 160,070	$ 43,301	$ 203,371
2026	$ 169,585	$ 43,527	$ 213,112
2027	$ 183,841	$ 47,754	$ 231,595
2028	$ 203,099	$ 50,416	$ 253,515
2029	$ 231,173	$ 64,870	$ 296,043
2030	$ 234,454	$ 55,714	$ 290,168
2031	$ 248,596	$ 54,482	$ 303,078
2032	$ 268,184	$ 55,181	$ 323,365
2033	$ 287,991	$ 58,099	$ 346,090

FYE	Explicit	Implicit	Total
2034	$ 305,818	$ 59,552	$ 365,370
2035	$ 329,544	$ 67,689	$ 397,233
2036	$ 371,077	$ 91,142	$ 462,219
2037	$ 399,248	$ 100,997	$ 500,245
2038	$ 411,363	$ 90,047	$ 501,410
2039	$ 455,713	$ 116,288	$ 572,001
2040	$ 474,466	$ 114,189	$ 588,655
2041	$ 465,636	$ 88,802	$ 554,438
2042	$ 512,861	$ 110,566	$ 623,427
2043	$ 528,816	$ 87,681	$ 616,497

FYE	Explicit	Implicit	Total
2044	$ 564,148	$ 95,391	$ 659,539
2045	$ 608,215	$ 106,526	$ 714,741
2046	$ 606,772	$ 75,277	$ 682,049
2047	$ 656,412	$ 99,244	$ 755,656
2048	$ 686,662	$ 97,671	$ 784,333
2049	$ 709,212	$ 103,495	$ 812,707
2050	$ 738,398	$ 112,187	$ 850,585
2051	$ 765,530	$ 119,799	$ 885,329
2052	$ 772,973	$ 110,432	$ 883,405
2053	$ 772,490	$ 96,475	$ 868,965



Section 6: Substantive Plan Provisions

Changes Since Prior Valuation

There are no plan provision changes reflected in this roll-forward report. For complete description of substantive plan provisions, refer to the McKinleyville Community Services District GASB 75 Disclosures for fiscal year ending June 30, 2022 report. Roll-forward valuation results shown in this report have been projected from the prior year's valuation, with adjustments for actual premium and contribution changes since the prior year.

Premium Rates

The monthly premium rates for ACWA/JPIA Other Northern California region used in the valuation effective on January 1, 2021 and 2022 are as shown below.

	Eff. 1/1/2021			Eff. 1/1/2022		
Non-Medicare Plans	**Single**	**2-Party**	**Family**	**Single**	**2-Party**	**Family**
Advantage PPO	$ 832.48	$ 1,664.96	$ 2,206.07	$ 790.85	$ 1,581.71	$ 2,095.76
CalCare HMO	$ 1,123.33	$ 2,246.67	$ 2,976.84	$ 1,147.86	$ 2,295.72	$ 3,041.83
CDHP	$ 756.80	$ 1,513.60	$ 2,005.52	$ 718.96	$ 1,437.92	$ 1,905.24

	Eff. 1/1/2021		
Medicare Plans	**Single**	**2-Party**	**Family**
Advantage PPO	$ 481.73	$ 963.46	$ 1,482.88
CalCare HMO	$ 623.54	$ 1,247.08	$ 1,913.48
CDHP	$ 437.94	$ 875.88	$ 1,348.08

	Eff. 1/1/2022		
Medicare Plan	**Single**	**2-Party**	**Family**
UHC Medicare Advantage PPO	$ 392.49	$ 784.98	$ 1,160.47

Premium Rates (Cont'd) This roll-forward report reflects actual premium changes through 2023. The monthly premium rates for ACWA/JPIA Other Northern California region used to determine the trend adjustments are as shown below.

Non-Medicare Plans	Eff. 1/1/2023		
	Single	2-Party	Family
Advantage PPO	$ 711.77	$ 1,423.54	$ 1,886.19
CalCare HMO	$ 1,211.18	$ 2,422.36	$ 3,209.63
CDHP	$ 647.06	$ 1,294.12	$ 1,714.71

Medicare Plan	Eff. 1/1/2023		
	Single	2-Party	Family
UHC Medicare Advantage PPO	$ 404.70	$ 809.40	$ 1,214.10

Section 7: Brief Summary of Actuarial Methods and Assumptions

Changes Since Prior Valuation

All actuarial methods and assumptions used in this year's roll-forward report are the same as those used in the McKinleyville Community Services District GASB 75 Disclosures for fiscal year ending June 30, 2022, except as noted below. Refer to the McKinleyville Community Services District GASB 75 Disclosures for fiscal year ending June 30, 2022 for complete description of actuarial methods and assumptions.

Actuary's Notes

The following assumptions have been updated since the last valuation:

1. The Single Equivalent Discount Rate (SEDR) has been increased from 3.69% as of June 30, 2022 to 4.10% as of June 30, 2023 which caused a decrease in the liability. This is based on the updated cross-over test where the Trust is expected to be depleted by the year ending 2044. The cross-over test assumes that the long-term expected rate of return of the Trust is 5.00% and the District will contribute the retiree healthcare expenses to the Trust, request reimbursement from the Trust, and make ad-hoc pre-funding contributions.

2. Second year health care trend rates have been updated to reflect actual premium increases from 2022 to 2023 as shown below, which caused a decrease in the liability.

Periods	Advantage PPO	CalCare HMO	CDHP
Non-Medicare	-10.00%	5.50%	-10.00%
Medicare	3.10%	3.10%	3.10%

Valuation Date June 30, 2021

Measurement Date June 30, 2023

Reporting Period Fiscal year ending June 30, 2023

Discount Rate For accounting disclosure: 4.10% as of June 30, 2023 and 3.69% as of June 30, 2022

For funding purposes (in calculating the Actuarially Determined Contribution): 5.00% for FY 2023/24 and 2024/25

Refer to the Discussion of Discount Rate section for additional information on the discount rate setting.

Actuarial Cost Method

Entry Age Normal Level Percentage of Pay; a method that allocates the actuarial present value of the projected benefits of each individual on a level basis over the earnings of the individual between entry age and assumed exit age(s).

- The portion allocated to a valuation year is called the Normal Cost.
- The portion allocated to past periods is called the Actuarial Accrued Liability (AAL) or Total OPEB Liability (TOL)

Trend Rates

Historically, health care costs have increased more rapidly than the rate of inflation. In estimating the value of retiree health benefits, assumptions must be made on future increases in healthcare costs. The health care trend rates assumption used in this valuation is based on the Getzen Model of Long-Run Medical Cost Trends, which was first designed by T.E. Getzen for the Society of Actuaries (SOA) in 2007. The model is designed to make long-run forecasts and typically used to select medical trend assumptions for retiree medical valuations to present liabilities disclosed under the appropriate accounting standards, or to determine contributions under a funding policy. The long-run baseline projection and input variables were developed under the guidance of the SOA Project Oversight Group. The model is updated annually along with updated documentation and recommended input variables by the author of the model.

The baseline assumptions used in the Getzen model are as shown in the table below.

Inflation Rate	2.5%
Real GDP Per Capita Growth	1.5%
Excess Medical Cost Growth	1.1%
Health Share of GDP Resistance Point	25.0%
Year for Limiting Cost Growth to GDP Growth	2075

Trend Rates (Cont'd) The output of the Getzen Model of Long-Run Medical Cost Trend Model used in the valuation is as shown below.

	Per Capita Costs & Premiums		District Subsidy for Spouse	
Year	Non-Medicare	Medicare	Non-Medicare	Medicare
2021	Actual[10]	Actual[10]	Actual[10]	Actual[10]
2022	Actual[10]	Actual[10]	Actual[10]	Actual[10]
2023	5.50%	5.30%	4.49%	4.70%
2024	5.40%	5.20%	4.59%	4.80%
2025	5.36%	5.20%	4.62%	4.80%
2030	5.18%	5.18%	4.81%	4.81%
2040	5.18%	5.18%	4.80%	4.80%
2050	5.18%	5.18%	4.79%	4.80%
2060	4.83%	4.83%	4.83%	4.83%
2070	4.38%	4.38%	4.38%	4.38%
2075+	4.04%	4.04%	4.04%	4.04%

[10] Actual premium increases from 2021 to 2022 reflected in last year's valuation and from 2022 to 2023 used in this roll-forward report are as follows:

- From 2021 to 2022: (a) Non-Medicare: -5.00% Advantage PPO & CDHP, 2.20% CalCare HMO and (b) Medicare: -18.50% Advantage PPO, -37.10% CalCare HMO, -10.40% CDHP (all mapped to United Healthcare PPO).
- From 2022 to 2023: (a) Non-Medicare: -10.00% Advantage PPO & CDHP, 5.50% CalCare HMO and (b) Medicare: 3.10% United Healthcare PPO.

Discussion of Discount Rates

Under GASB 75, the discount rate used in valuing OPEB liabilities as of the Measurement Date is a single rate that reflects:

1. The long-term expected rate of return on OPEB plan investments that are expected to be used to finance future benefit payments, to the extent that (a) they are sufficient to pay for the projected benefit payments and (b) the OPEB plan assets are expected to be invested using a strategy that will achieve that return.
2. A yield or index rate for 20-year tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher (or equivalent quality on another rating scale), when the conditions in (1) above are not met.

For the current year's valuation:

1. The expected long-term real rate of return of the OPEB Trust is 5.00% as of June 30, 2023. This rate of return was determined using a building-block method in which best-estimate ranges of expected future real rates of return net of investment expense are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future rates of return by the target allocation percentage. The District's expected future real rates of return by asset class is as shown below. [11]

Asset Classes	Target Allocation	Proj. Real Rates of Return
Global Equity	23%	4.50%
Fixed Income	51%	1.40%
Treasury Inflation-Protected Securities (TIPS)	9%	0.50%
Real Estate Investment Trusts (REITs)	14%	3.70%
Commodities	3%	1.10%
Total	100%	

2. The municipal bond index as of the prior and current Measurement Dates are as shown below:

Index	June 30, 2023	June 30, 2022
Fidelity General Obligation AA 20-Year Bond	3.86%	3.69%

3. The final equivalent single discount rate used for accounting disclosure is 4.10% as of June 30, 2023 with the expectation that the Plan Sponsor will contribute in accordance with the Funding Policy described in Section 3. Under this Funding Policy, the OPEB Trust is expected to be depleted by the year ending 2044.

   The discount rate used to calculate the Actuarially Determined Contribution for FY 2023/24 and FY 2024/25 contribution years is 5.00%.

[11] The assumed inflation rate of 2.30% is added to the weighted expected future real rate of return to obtain the assumed discount rate. Projected long-term real rates of return are compound returns (time-weighted and net of all fees), adjusted for inflation, as shown in the CERBT Investment Policy Information – 2022 Capital Market Assumptions adopted by the CalPERS Board of Administration in November 2021.

Appendix – Glossary

1. **Active Employees** – Individuals employed at the end of the reporting or measurement period, as applicable.

2. **Actuarial Cost Method** – A method to allocate the Actuarial Present Value of Future Benefits into portions attributed to past service (Total OPEB Liability) and future service (Normal Cost).

3. **Actuarial Present Value of Future Benefits –** Projected benefit payments estimated to be payable through the OPEB plan to current active and inactive employees as a result of their past service and their expected future service, discounted to reflect the expected effects of time value (present value) of money and the probabilities of payment (which is contingent on events such as death, termination, retirement, etc). In other words, this is the amount that would have been invested as of the Valuation Date so that it is sufficient to pay for benefit payments when due.

4. **Deferred Inflows** – Gains in the Total OPEB Liability and Fiduciary Net Position (for funded plan only) due to be recognized in the future.

5. **Deferred Outflows** – Losses in the Total OPEB Liability and Fiduciary Net Position (for funded plan only) due to be recognized in the future.

6. **Defined Benefit OPEB –** OPEB for which the benefits that the employee will receive at or after separation from employment are defined by the benefit terms. The OPEB may be stated as (a) a specified dollar amount; (b) an amount that is calculated

7. **Entry Age Actuarial Cost Method –** A method that allocates the actuarial present value of the projected benefits of each individual on a level basis over the earnings or service of the individual between entry age and assumed exit age(s).

    - The portion allocated to a valuation year is called the Normal Cost.
    - The portion allocated to past periods is called the Total OPEB Liability.
    - The portion allocated to future periods after the valuation date is called the Present Value of Future Normal Costs.

8. **Fiduciary Net Position –** OPEB plan assets in a secure Trust that meet the following criteria:

    - Contributions from employers to the OPEB plan and earnings on those contributions are irrevocable.
    - OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.
    - OPEB Plan assets are legally protected from the creditors of employers, OPEB plan administrator, and creditors of the plan members.

9. **Funded Ratio –** The value of the asset expressed as a percentage of the Total OPEB Liability.

10. **Healthcare Cost Trend Rates –** The rates of change in per capita health claims costs over time as a result of factors such as medical inflation, utilization of healthcare services, plan design, and technological developments.
11. **Inactive Employees –** Individuals no longer employed by an employer in the OEPB plan or the beneficiaries of those individuals. Inactive employees also include individuals who have accumulated benefits under the terms of an OPEB plan but are not yet receiving benefit payments and individuals currently receiving benefits.
12. **Net OPEB Liability –** The difference between the Total OPEB Liability and the Fiduciary Net Position.
13. **Payroll Growth –** An actuarial assumption on the rate of future increase in the total coverage payroll attributable to wage inflation and productivity increase; used in the Actuarial Cost Method to determine the Total OPEB Liability.
14. **Plan Members –** Individuals covered by the terms of the OPEB plan, which would typically include employees in active service, terminated employees who have terminated service but are not yet receiving benefit payments, and retired employees who are currently receiving benefits.
15. **Other Postemployment Benefits (OPEB) –** Benefits such as death benefits, life insurance, disability, and long-term care, as well as healthcare benefits (medical, prescription drug, dental, vision, and other health-related benefits), that are paid in the period after employment and that are provided separately from a pension plan regardless of the manner in which they are provided. OPEB does not include termination benefits or termination payments for sick leave.
16. **Service Cost (Normal Cost) –** The portion of actuarial present value of projected benefit payments that are attributed to a 12-month period after a valuation date as determined by the Actuarial Cost Method.
17. **Total OPEB Liability –** The portion of the actuarial present value of projected benefit payments that is attributed to past periods of employee service as of the valuation date as determined by the Actuarial Cost Method.

GovInvest

The Financial Forecasting Authority

8605 Santa Monica Blvd PMB 52465, West Hollywood, CA 90069-4109
info@govinvest.com

McKinleyville Community Services District

AUDIT & FINANCE COMMITTEE

October 23, 2023 TYPE OF ITEM: **INFORMATION**

ITEM: 4 **Audit & Budget Update**

PRESENTED BY: **Nicole Alvarado, Finance Director**

TYPE OF ACTION: **Information**

Recommendation:

Staff recommends the Committee review the information provided, discuss, and take public comment.

Discussion:

AUDIT UPDATE

The District is required per state statute, to prepare annual financial statements and have them audited by an external auditor. The District's auditor C.J. Brown & Company, CPAs conducted interim testing in June. In early October, the trial balance was submitted, and field works was conducted from October 2-6. The auditor provided preliminary findings to the District's Finance Director which will conclude that overall, the District was well-prepared for the audit and only minor procedural adjustments were recommended.

The District's audit of federal awards was not completed during field work due to an emergency in the auditor's family. However, this work is planned to be completed in either December or January. A draft of the audited financials will be presented to the Committee in early December with a presentation to the full board anticipated at the January meeting.

BUDGET UPDATE

In January, the District will begin to assemble the FY24-25 budget, key factors the District will need to consider include increases to health insurance premiums (the PPO is increasing 12% and the HMO is increasing 5%), CalPERS unfunded liability payment, and contributions to OPEB. The District also recently completed a salary study which concluded that some positions required adjustment to be competitive with the labor market.

Alternatives:

Take No Action

Fiscal Analysis:

Increased costs may affect net income in the funds affected. Another key consideration for the District is ensuring cash flow is sufficient to cover both day to day expenses and payments towards capital projects.

Environmental Requirements:

Not applicable

Exhibits/Attachments:

- None