Initial Pension Liability Assessment

March 26, 2026

Ridgeline
MUNICIPAL STRATEGIES

Municipal Advisory | Pension Optimization | Financial Planning

Cayucos Sanitary District

Pension Liability Analysis Context

- Majority of CalPERS member agencies face large unfunded liabilities
- FYs 2024 & 2025 – CalPERS generated strong excess returns
- 2024 earnings benefit was mostly consumed by other UAL adjustments
- Most recent CalPERS data only covers FY 2024
- 2025 numbers are estimates; final results will be known in Aug 2026

06/30/2024 Pension Plans Overview

Pension Plan	Total Accrued Liability	Market Value of Assets	Unfunded Accrued Liability	% Funded
Miscellaneous	$3,611,887	$2,670,924	$940,963	73.9%
TOTAL	$3,611,887	$2,670,924	$940,963	73.9%

Source: 06/30/2024 CalPERS Actuarial Report

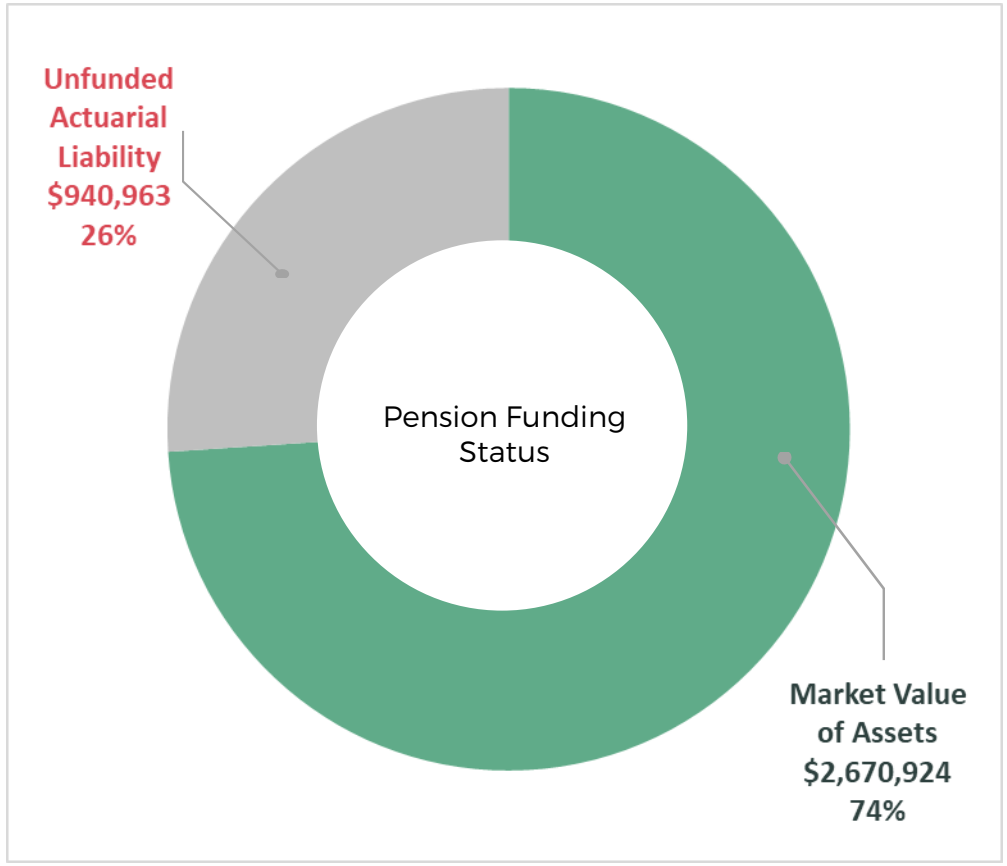
Definitions:

Total Accrued Liability = What You Need

Market Value of Assets = What You Have

Unfunded Accrued Liability = What You Owe

06/30/2024 Pension Funding Status



Source: 06/30/2024 CalPERS Actuarial Report

- Total Pension Obligations = $3.6M
- Pension Assets = $2.7M
- Shortfall = $1M (26% of what is needed)

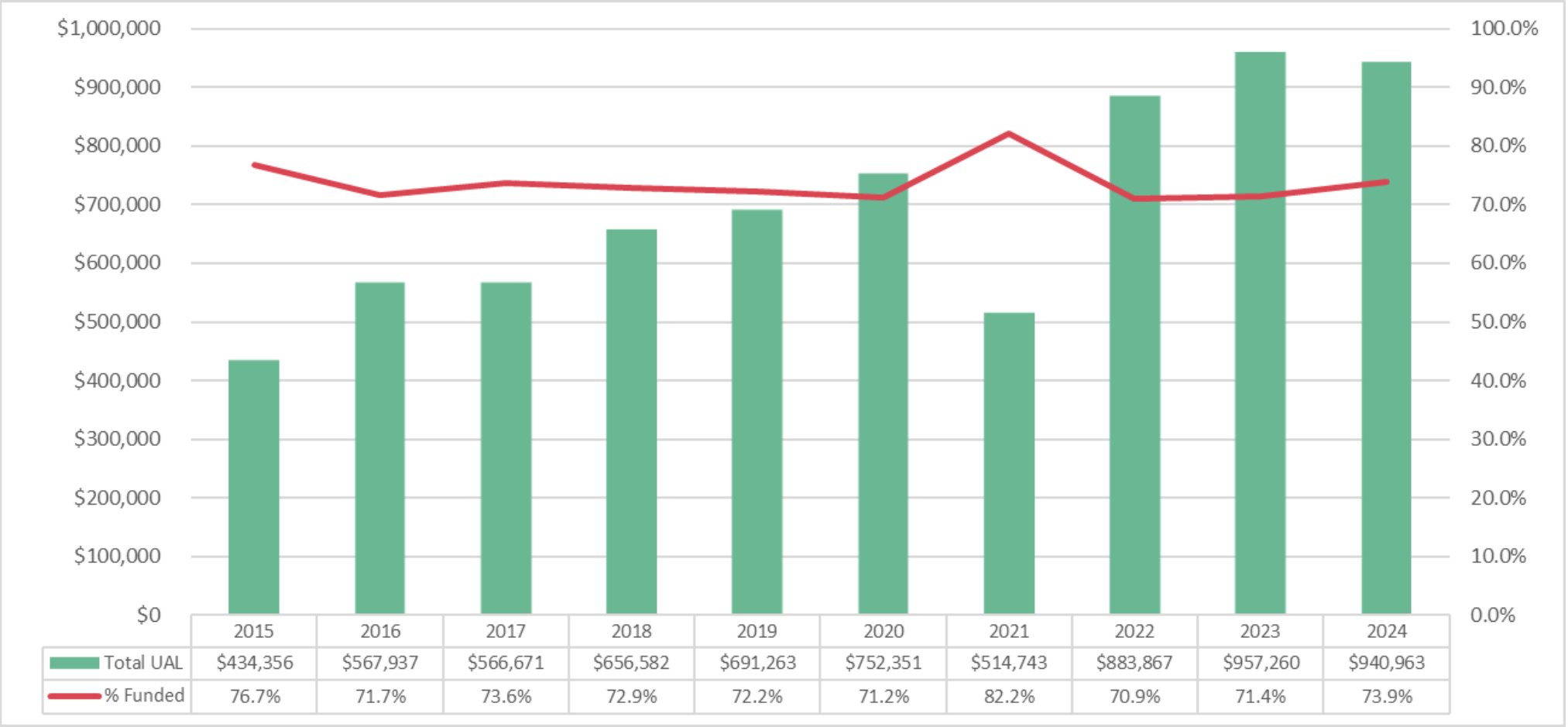
Shortfall (UAL) = DEBT:

- Owed to CalPERS
- Reduced or delayed payments not allowed
- Amortizes over time (up to 20 years)
- Accrues interest at 6.8% interest rate ($526K total)
- District's most expensive debt
- No prepayment restrictions or penalties

UAL and Funding Level

10 years later:

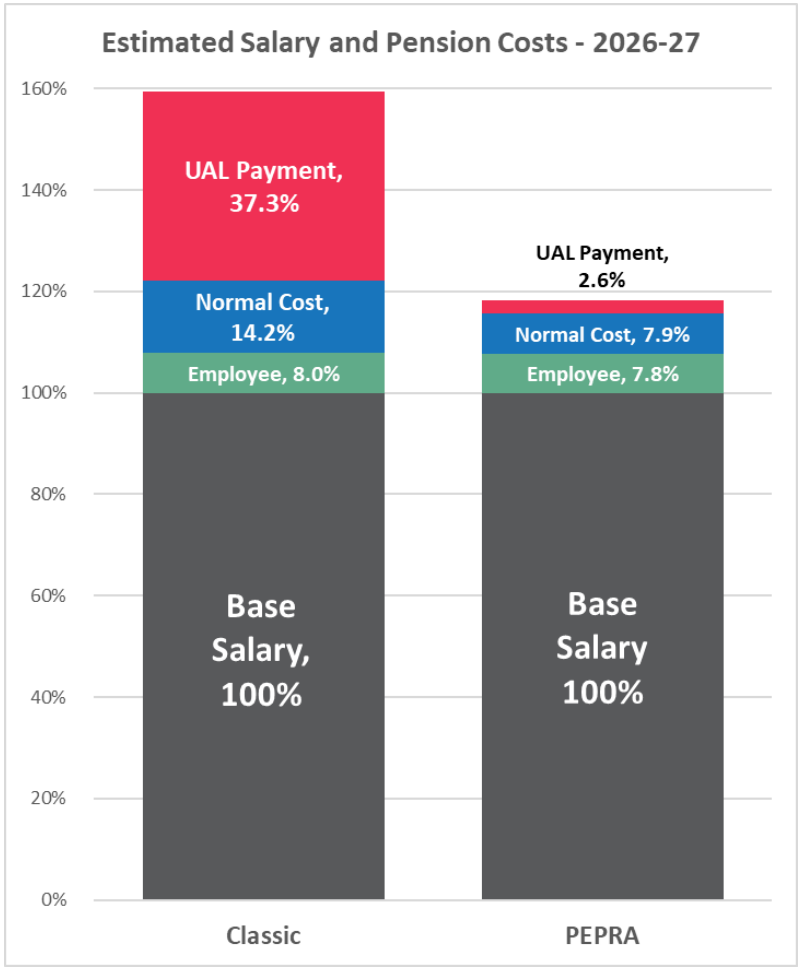
- Owe $500K more
- Funded level 2.7% lower



	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total UAL	$434,356	$567,937	$566,671	$656,582	$691,263	$752,351	$514,743	$883,867	$957,260	$940,963
% Funded	76.7%	71.7%	73.6%	72.9%	72.2%	71.2%	82.2%	70.9%	71.4%	73.9%

Source: 06/30/2024 CalPERS Actuarial Report

Pension Costs Overview



Two types of payments to CalPERS:

- **Normal Cost (Shared w/ employees):**
  - Annual pension benefit cost for current employees
  - % of payroll
- **UAL Payment (District Only):**
  - Repayment of pension funding shortfall
  - Fixed dollar amount
  - Includes interest at 6.8%

Source: 06/30/2024
CalPERS Actuarial Report

Pension Payments

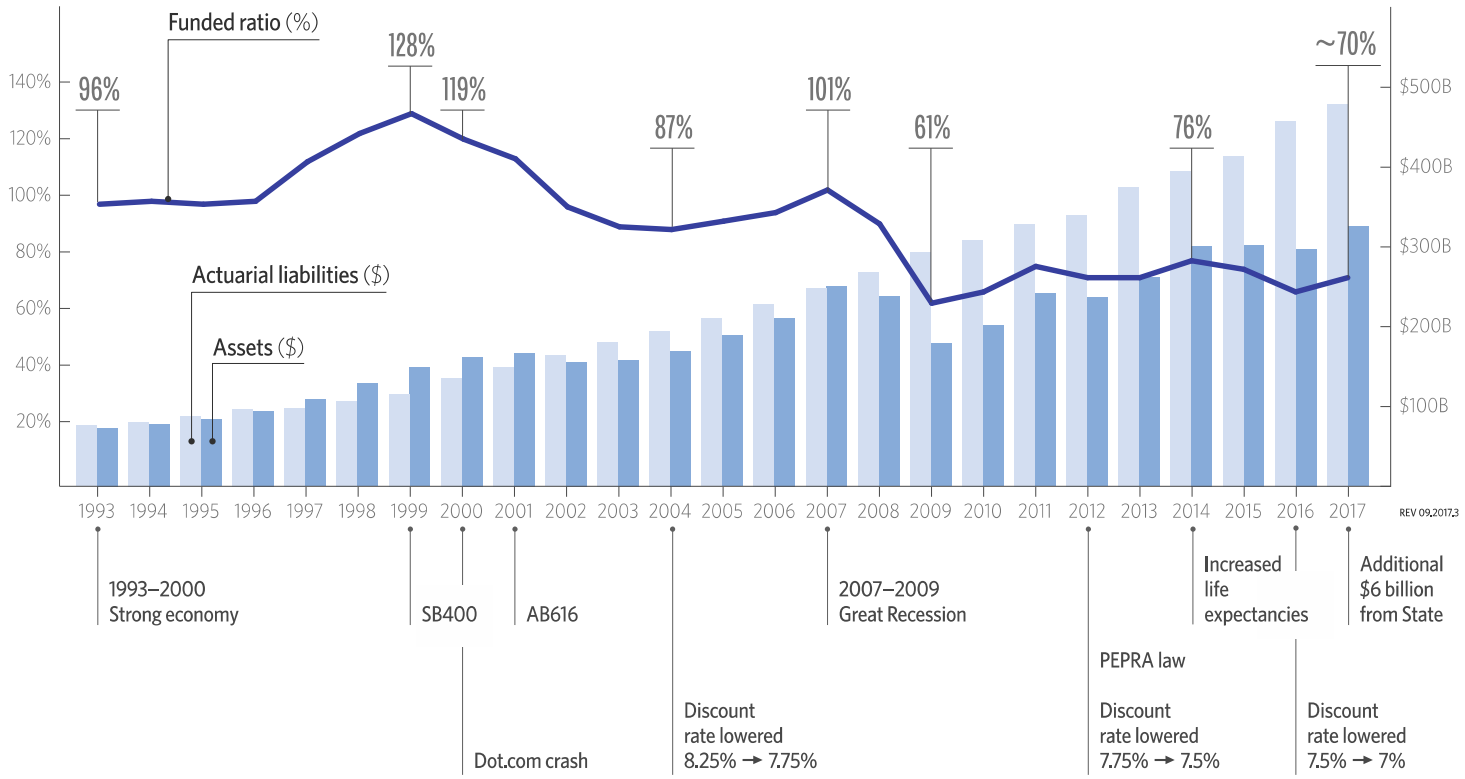
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Total UAL	$26,414	$33,326	$40,361	$46,743	$54,834	$61,005	$57,753	$72,316	$83,000	$91,198
Total Normal Cost	$24,826	$24,505	$37,765	$51,297	$54,532	$58,944	$73,636	$61,774	$67,644	$67,441

Annual Pension Payment Increase:

$107K in 10 years (210%)

Source: 06/30/2024 CalPERS Actuarial Report

CalPERS History Lesson



Source: CalPERS

- 1999 – CalPERS "Superfunded" (128%)
- 2000 – SB 400 / AB 616
  - (Retroactive Benefit Increase)
- 2000-02 – dot.com investment losses:
  - 2000-01: -7.2%
  - 2001-02: -6.1%
- Loss of "Super Funded" Status
- 2008-09 – Great Recession:
  - Investment Loss: - 27% ($67 Bn)
  - Full impact: - 34.75% (+ 7.75% discount rate)
  - CalPERS 61% funded
- 2012 – PEPRA - New Employees Only
- 2024 – CalPERS 75% funded

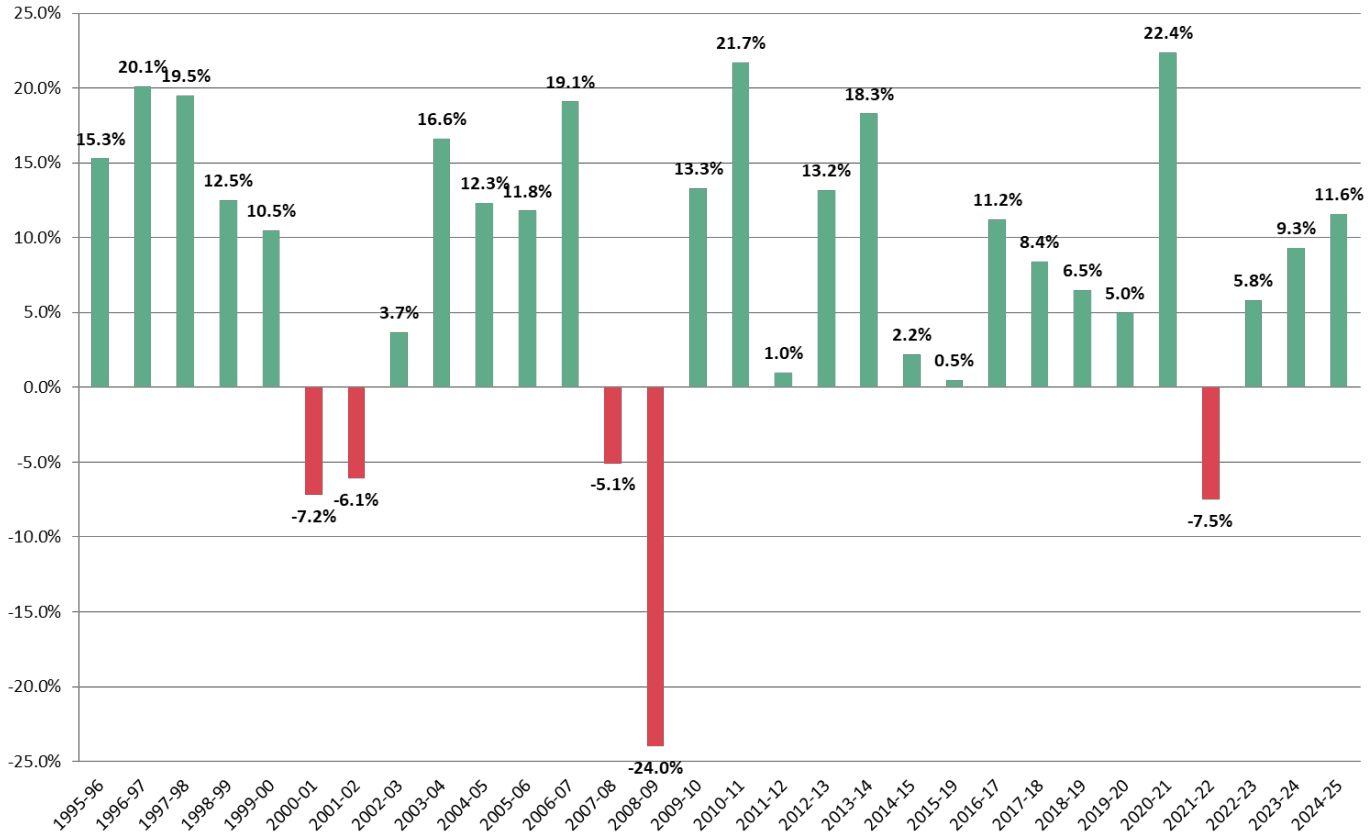
Pension Cost Increase Drivers

- Benefit Increases
- Salary Increases over 2.85%
- Longer Life Spans
- Fewer Active Workers
- Weak Investment Performance
- CalPERS Assumption Changes
- Negative Amortization

Investment Risk and Returns

CalPERS Historical Average Rates of Return:

Thru 2024-25: 5 years – 8% 10 years – 7.1% 20 years – 6.7% 30 years – 7.6%



Source: CalPERS

- 2025: 55% of pension benefits funded by investment returns
- CalPERS manages pension investments
- **District bears all investment risk**
- Failure by CalPERS to achieve target investment returns does not relieve District from pension benefit guarantees to employees and retirees
- **District's cash (UAL payments) makes up investment return shortfalls**

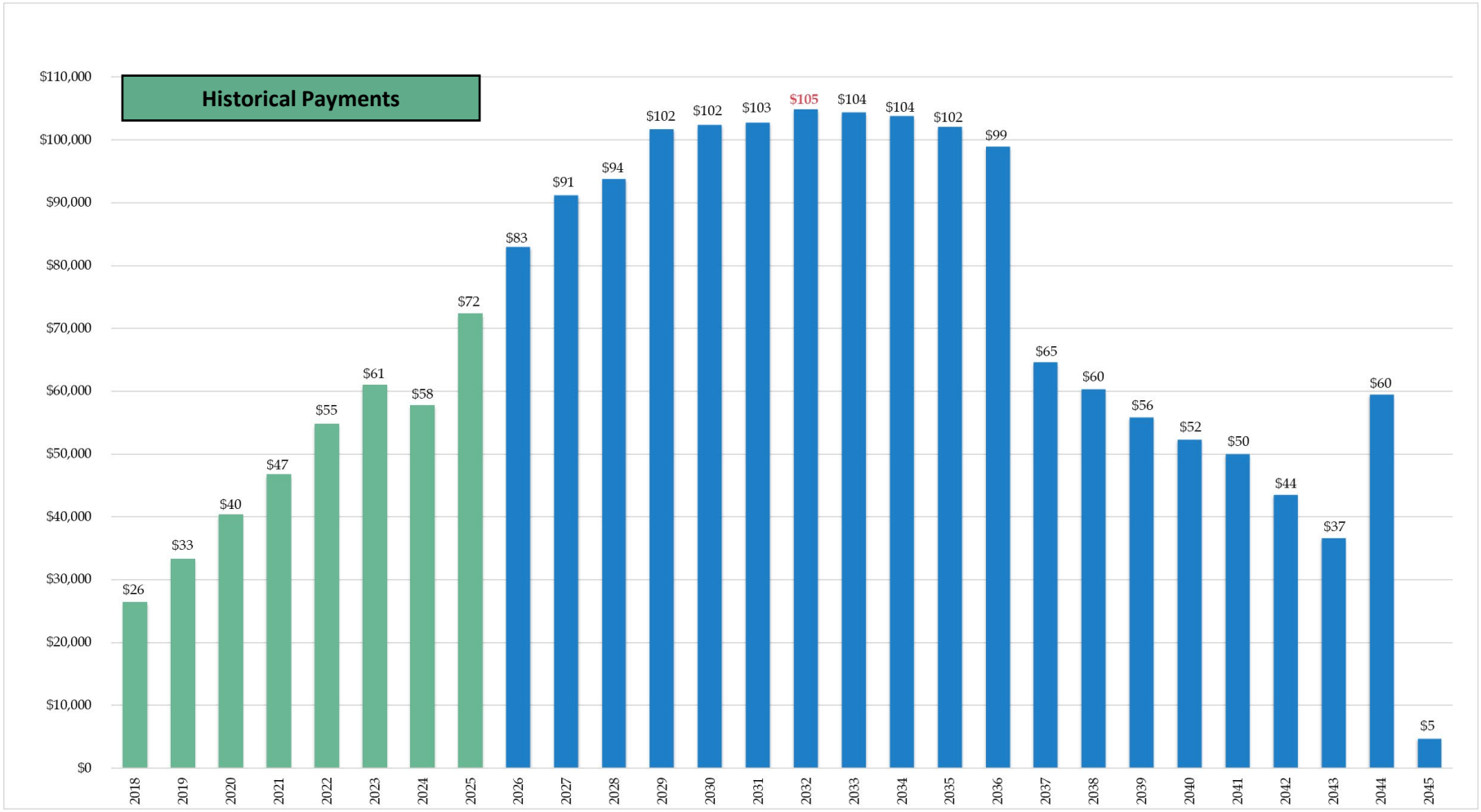
FY 2024 UAL Changes

- FY 2024 Investment Return: 9.3%
  - Excess return of 2.5% (over 6.8% discount rate)

Pension Plan	Investment Returns	Other Factors	Total UAL Change
Miscellaneous	(66,330)	44,625	(21,705)
TOTAL	(66,330)	44,625	(21,705)

Source: 06/30/2024 CalPERS Actuarial Report

Current UAL Amortization Schedule



06/30/2024 Valuation

UAL Payments Only

DOES NOT INCLUDE:

- Normal Cost

Total interest cost

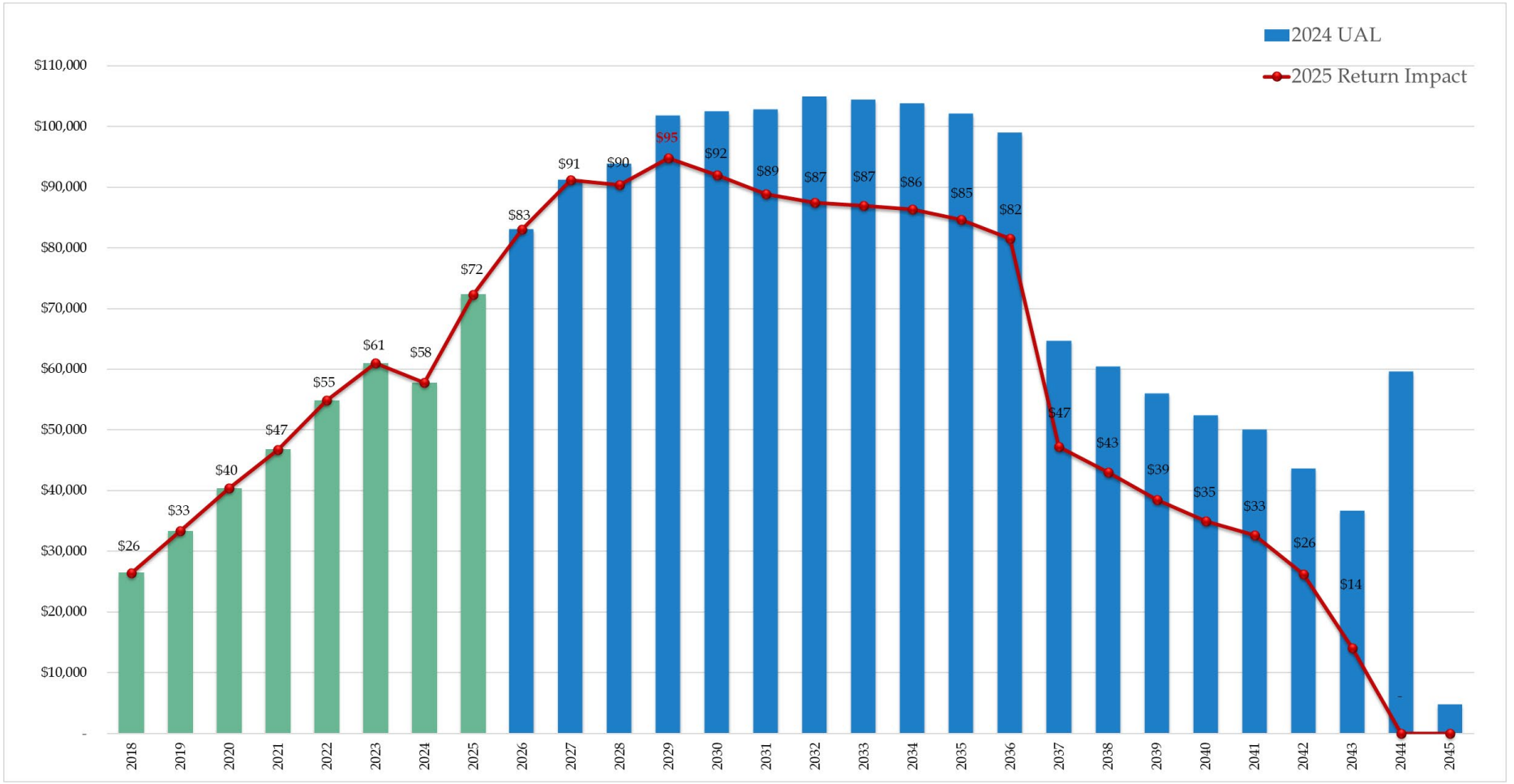
$526K

Source: 06/30/2024 CalPERS Actuarial Report

FY 2025 UAL Changes

- **FY 2025 Investment Return:** 12.1%
  - Excess return of 5.3% (over 6.8% discount rate)
  - Estimated UAL Reduction: $142,000
- **Other changes will be announced in Jul / Aug 2026**

2025 Investment Impact Estimate



UAL Payments Only

DOES NOT INCLUDE:

- Normal Cost

Total interest cost

$355K

Sources: 06/30/2024 CalPERS Actuarial Report, CalPERS, and UAL estimates

UAL Bases and Negative Amortization

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	47,732	1,046	49,897	2,051	51,170	3,077
Assumption Change	6/30/21	No Ramp		0.00%	19	9,532	(1,218)	11,439	1,029	11,153	1,029
Net Investment (Gain)	6/30/21	40%	Up Only	0.00%	19	(226,705)	0	(242,121)	(5,204)	(253,207)	(10,409)
Non-Investment (Gain)/Loss	6/30/21	No Ramp		0.00%	19	(11,562)	0	(12,348)	(1,110)	(12,041)	(1,110)
Risk Mitigation	6/30/21	No Ramp		0.00%	0	69,338	(1,238)	75,332	77,851	0	0
Risk Mitigation Offset	6/30/21	No Ramp		0.00%	0	(70,536)	0	(75,332)	(77,851)	0	0
Investment (Gain)/Loss	6/30/22	20%	Up Only	0.00%	20	295,960	0	316,085	0	337,579	7,256
Non-Investment (Gain)/Loss	6/30/22	No Ramp		0.00%	20	38,392	0	41,003	0	43,791	3,938
Total						**850,665**	**57,319**	**849,274**	**57,753**	**847,340**	**68,386**

Source: CalPERS Actuarial Valuation Report

- **Standard CalPERS Investment (Gain) / Amortization Rules:**
  - No payments for the first 2 years
  - 5-year Payment Ramp-Up (20%, 40%, 60%, 80%, 100%)
  - 15 years of level payments

Negative Amortization Example

FYE	UAL Year	Starting UAL Balance	Interest	Payment	Ending UAL Balance
2023	1	$295,960	$20,125	$0	$316,085
2024	2	$316,085	$21,494	$0	$337,579
2025	3	$337,579	$22,709	($7,256)	$353,032
2026	4	$353,032	$23,513	($14,512)	$362,033
2027	5	$362,033	$23,878	($21,768)	$364,143
2028	6	$364,143	$23,775	($29,024)	$358,893
2029	7	$358,893	$23,171	($36,280)	$345,785
2030-44	8-22	$345,785	$198,415	($544,200)	$0

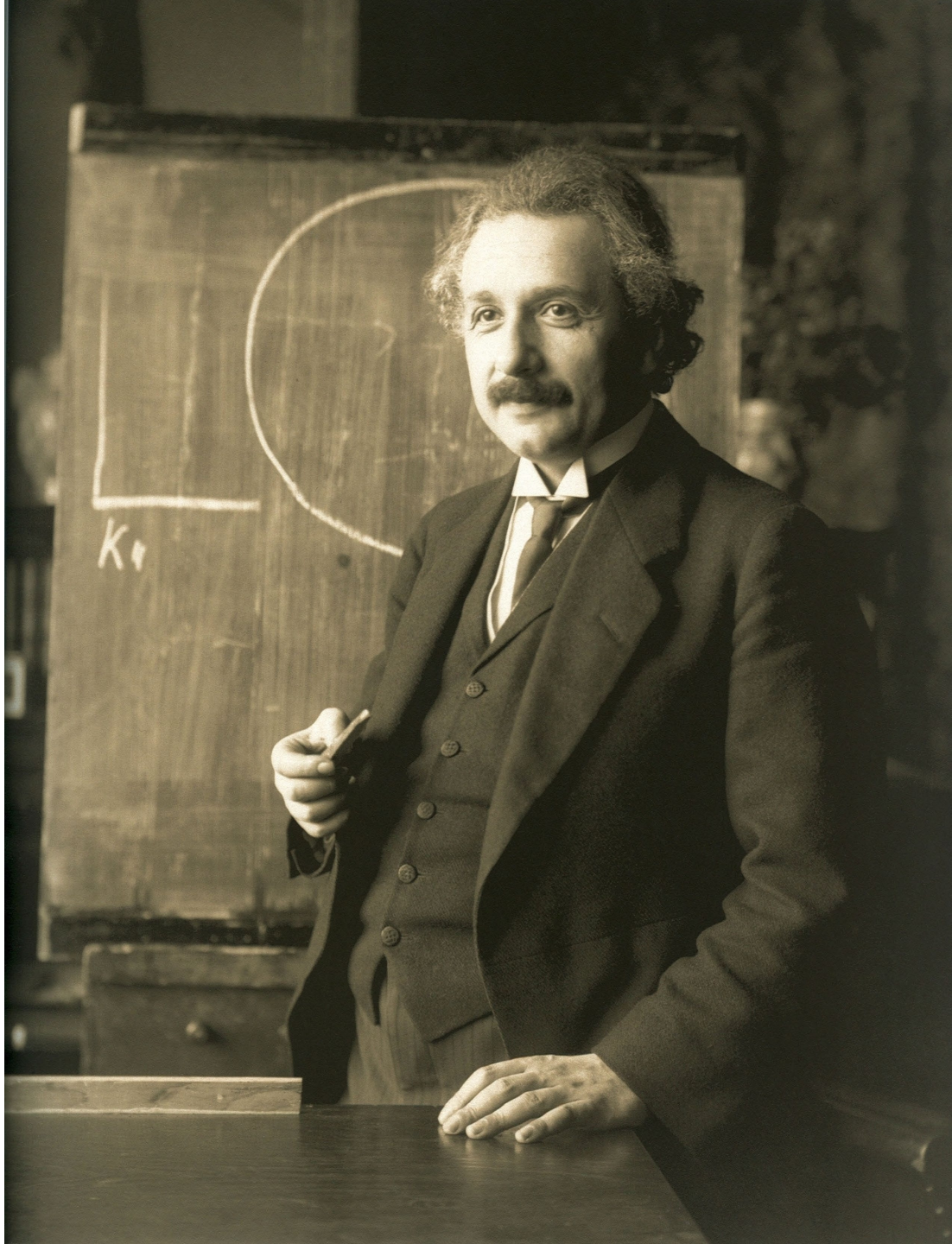
UAL keeps growing

23% UAL increase before you start paying it down

Total Interest = 121% of New UAL

“No problem can be solved from the same level of consciousness that created it.”

- Albert Einstein



Pension Optimization Strategies

Option 1
Let It Be

1. Keep UAL in place
2. Best Practices
   a. Adopt Pension Liability Management Policy
   b. Annual Prepayments
   c. Address Negative Amortization
   d. Rate Increases

Option 2
Indirect Refinance

1. **Instead of paying cash for a project:**
   a. Finance the project at low tax-exempt interest rate
   b. Pay off UAL with cash
2. **Preserves cash**
3. **Adopt Best Practices**
4. **Will be discussed tomorrow in more detail**

Option 3
Pay Off with Reserves

1. **Pay off from reserves**
   a. One-time payment or series of payments
   b. Consider interest earnings on reserves
2. **Depletes reserves**
3. **Adopt Best Practices**

Next Steps

- Identify District Priorities
- Consider Adopting Pension Liability Management Policy and Best Practices
- Develop and Implement Appropriate Strategy
  - None of the strategies will prevent future UAL increases
- Annual Reviews of Actuarial Valuation
- **There is no one-time fix!!!**

WHILE YOU CANNOT PREVENT FUTURE UAL INCREASES, YOU CAN PREPARE FOR THEM

Questions?

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