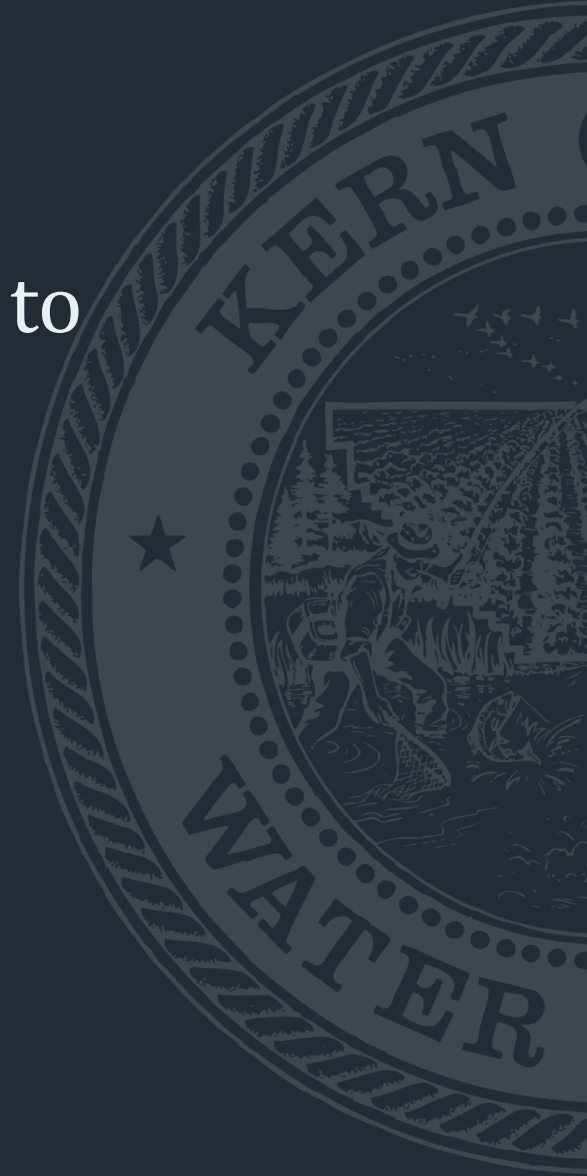




From a \$22 Million Unfunded Liability to Fully Funded: An OPEB Success Story

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About Kern County Water Agency

Created in 1961 | 54 Employees | Offices in Bakersfield & Sacramento

General Fund

- ▶ Funded by a portion of Kern County's general property tax revenues

State Water Contractor

- ▶ 13 member districts + Improvement District No. 4
- ▶ Contracted for ~1 million acre-feet of SWP water annually

About Kern County Water Agency (cont.)

Improvement District No. 4 (ID4)

- ▶ Wholesale treated water provider to four purveyors in north/east Bakersfield

Cross Valley Canal (CVC)

- ▶ 22-mile canal from the CA Aqueduct to the ID4 treatment plant
- ▶ 13 water districts participate

Pioneer Project & Berrenda Mesa Project

- ▶ Local groundwater banking facilities managed by KCWA staff

Retirement and Retiree Health Insurance Benefit Information

Pension (KCERA)

- ▶ Three retirement tiers
- ▶ Normal cost and UAAL funded through biweekly payroll payments

Retiree Medical (OPEB)

- ▶ Retirees receive medical coverage at the same rate as active employees
- ▶ Hired before 1/1/2018: Rule of 70 | Hired on/after 1/1/2018: Rule of 80
- ▶ Funded pay-as-you-go through June 30, 2025

What prompted the Unfunded Liability Discussion

- ▶ GASB changes that took effect related to pension liability reporting (GASB 68) and OPEB liability reporting (GASB 45 & 75)
- ▶ Key liability amounts as of June 30, 2015

Pension (KCERA)

\$30.4M

OPEB (Retiree Medical)

\$22.3M

Board of Directors Discussion

Discussion Started with the Audit Ad Hoc

- ▶ GASB 68 and GASB 45/75 introduced new standards increasing transparency of pension and OPEB unfunded liabilities
- ▶ Pension: No immediate action needed — biweekly payroll payments were already paying towards reducing the UAAL
- ▶ OPEB: No funding mechanism existed; costs covered entirely on a pay-as-you-go basis
- ▶ The Audit Ad Hoc escalated the OPEB issue to the full Board of Directors for discussion and potential action

Board of Directors Discussion (cont.)

Why the Board Decided to Pre-Fund OPEB

- ▶ Demonstrates fiscal responsibility to stakeholders, ratepayers, and employees
- ▶ A reduced OPEB liability, supporting stronger bond ratings and lower borrowing costs
- ▶ Investment earnings compound over time, reducing future out-of-pocket retiree medical costs

Board of Directors Decision Points

Trust

- ▶ CalPERS California Employers' Retiree Benefit Trust (CERBT)

Contribution Amount

- ▶ \$500,000 per year — equal to the Agency's approximate annual retiree medical cost at the time

Investment Strategy

- ▶ CERBT Strategy 1 — most aggressive option with an estimated long-term return of 7.28%

Stakeholder Discussion and Rollout

- ▶ Staff briefed ID4, Cross Valley Canal, and Groundwater Banking stakeholders on the OPEB funding plan and proportionate cost-sharing
- ▶ Not all stakeholders were initially in favor of an additional contribution — they were already paying pay-go costs
- ▶ The Board voted to have the General Fund cover the initial \$500,000 in full, giving stakeholders one additional budget cycle to plan for their proportionate share

CERBT Enrollment and Funding

- ▶ From first Board discussion to CERBT enrollment: nearly two years
- ▶ First contribution of \$500,000 made in FY 2017-18
- ▶ \$500,000 annual deposits continued through FY 2024-25, shared proportionally with stakeholders
- ▶ June 30, 2024, actuarial valuation: \$11.1M total OPEB liability, \$3.4M in CERBT assets — net OPEB liability of \$7.7M

Actual Funding Progress and With Projections After 6/30/25

Fiscal Year End	Annual Deposit	Annual Earnings	Fund Balance	Rate of Return
6/30/2018	\$500,000	\$19,686	\$519,686	5.25%
6/30/2019	\$500,000	\$41,851	\$1,061,537	8.05%
6/30/2020	\$500,000	\$78,570	\$1,640,107	7.40%
6/30/2021	\$500,000	\$451,238	\$2,591,345	27.51%
6/30/2022	\$500,000	-\$348,198	\$2,743,147	-13.44%
6/30/2023	\$500,000	\$187,892	\$3,431,039	6.85%
6/30/2024	\$500,000	\$374,996	\$4,306,035	10.93%
6/30/2025	\$500,000	\$424,667	\$5,230,702	9.86%
6/30/2026	\$500,000	\$408,136	\$6,138,838	7.80%
6/30/2027	\$500,000	\$478,995	\$7,117,833	7.80%
6/30/2028	\$500,000	\$555,383	\$8,173,216	7.80%
6/30/2029	\$500,000	\$637,732	\$9,310,948	7.80%
6/30/2030	\$500,000	\$726,505	\$10,537,453	7.80%
6/30/2031	\$500,000	\$822,206	\$11,859,659	7.80%

Additional Deposit Prior to 6/30/25

- ▶ LAIF/County of Kern Investment Pool averaged 2.1% from fiscal year 2017-18 to fiscal year 2024-25 vs. CERBT's 7.8%
- ▶ Board approved a \$5M one time deposit prior to June 30, 2025, bringing the fund balance to ~\$10.4M
- ▶ At 7.8%, \$10.4M generates ~\$811K annually — enough to fully cover retiree medical costs of ~\$750K/year without further deposits

Actual Funding Progress w/Additional Deposit by KCWA

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6/30/2025	\$500,000	\$424,667	\$5,230,702	9.86%
6/30/2025	\$5,000,000	\$124,519	\$10,355,221	
4/30/2026	\$0	\$1,559,117	\$11,914,338	18.07%

Utilizing the CalPERS CEPPT Fund for Additional Investment

- ▶ In early FY 2025-26, the Board approved a \$5M contribution to the CalPERS Pension Pre-funding Trust (CEPPT)
- ▶ KCWA already funds pension obligations through biweekly payments to KCERA, but an unfunded liability remains — CEPPT earnings can help offset future annual contributions
- ▶ Estimated long-term return: 5% | Actual return to date: ~10%

Key Take Aways

- ▶ Pre-funding OPEB liabilities signals strong organizational values to employees and ratepayers and demonstrates proactive management
- ▶ Let time and compounding returns do the heavy lifting — starting early can dramatically reduce long-term cost
- ▶ Funding an OPEB Trust can improve budget predictability, so your Agency isn't worried about volatile annual pay-as-you-go costs
- ▶ Access to higher return investment options
- ▶ Provides strategic flexibility as contributions can be adjusted as needed depending on financial conditions

End

