

**WEST BASIN MUNICIPAL WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

(6) **Defined benefit pension plan (Continued)**

**PARS:**

The District contributes to the Public Agency Retirement System (PARS), an agent single-employer public employee defined benefit pension plan. PARS provides pensions trusts established by public agencies for plan members and beneficiaries. The Retirement Enhancement Plan ("Plan") and the trust established to hold the assets of the Plan shall be qualified under Section 401(a) and tax-exempt under Section 501(a) of the Internal Revenue Code of 1986. Copies of PARS' annual financial reports may be obtained from its executive office at 5141 California Avenue, Suite 150, Irvine, California, 92617.

**A. Plan Effective Date:** July 1, 2002

**B. Plan Year:** July 1 to June 30

**C. Participation:** Board members who retire from the West Basin Municipal Water District on or after the effective date of the plan, and who have no benefits from CalPERS.

**D. Eligibility for Benefits:**

A Participant becomes eligible for the Pension benefit (Tier 1 benefit) under the plan when he or she:

1. is at least 50 years of age;
2. has completed 5 or more years of service; and
3. was not a CalPERS member prior to January 1, 2003.

A Participant becomes eligible for the Supplemental benefit (Tier 2 benefit) under the plan when he or she:

1. is at least 55 years of age;
2. has completed 12 or more years of service;
3. was elected after January 1, 1995; and
4. is not eligible for another prior District benefit.

**E. Final Pay:** The highest average annual compensation for a one year period of employment with the District.

**F. Employee Contributions:** None.

**G. Retirement Benefit:** The Pension benefit is the 3% at 60 benefit. For retirement at age 50, the benefit is 2.0% of Final Pay multiplied by years of service. For each year older a participant is at retirement, the multiplier increases by 0.1% until it reaches 3.0% for retirement at ages 60 and older. The Supplemental benefit is a \$5,000 annual benefit which is increased with CPI beginning on July 1, 2003.

**WEST BASIN MUNICIPAL WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**(6) Defined benefit pension plan (Continued)**

**H. Vested Termination Benefit**

100% with five years of service for the Pension benefit. None for the Supplemental benefit.

**I. Disability Benefit:** For the Pension benefit, 30% plus 1% for each year of service greater than five, with a 50% maximum, multiplied by Final Pay. No disability benefit is provided under the Supplemental benefit.

**J. Death Benefit:** No pre-retirement death benefits are provided.

**K. Benefit Forms:** The normal form of benefit for the Pension benefit is to provide an automatic 50% continuance to the member's survivor. The Supplemental benefit provides for an automatic 100% continuance to the survivor.

**L. Cost of Living Adjustment:** The member's Pension benefit will be increased by 2% (compounding) effective on the anniversary date of commencement of the Pension benefit. The Supplemental Benefit is increased by the all-urban CPI (U.S. city average).

**M. Service Purchase:** Under the Pension benefit, military and CalPERS service purchase are allowed. If the member withdraws prior to retirement, the amount of the service purchase, plus 5% annual interest, will be refunded.

<b><u>Results of the valuation:</u></b> (amounts in \$000's)	<u>2005/2006</u>
▪ <b>Actuarial Liabilities</b>	
• Present Value of Projected Benefits (PVPB)	\$ 865
• Actuarial Accrued Liability (AAL)	433
▪ <b>Assets</b>	
• Total Assets at Market Value	241
• Approximate Annual Rate of Return	3.1%
▪ <b>Plan Funded Status</b>	
• AAL	433
• Plan Assets	241
• Unfunded AL (UAAL)	192

**WEST BASIN MUNICIPAL WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**(6) Defined benefit pension plan (Continued)**

▪ **Current Annual Cost**

• Normal Cost	60
• Amortization of Initial/Fresh Start UAAL	15
• Amortization of (Gains)/Losses	-
• Amortization of Assumption Changes	-
• Subtotal	75
• Expenses	<u>11</u>
• Total Cost	86

**Annual Required Contribution (amounts in \$000's)** 2005/2006

▪ <b>Projected Payroll</b>	\$ 127
▪ <b>Annual Pension Cost (percent of payroll)</b>	
• Normal Cost	47.1%
• Amortization of Initial/Fresh Start UAL	11.8%
• Amortization of (Gains)/Losses	-
• Amortization of Assumption Changes	-
• Expenses	<u>8.8%</u>
• Total Contribution	67.7%

Participants may make contributions to the Plan through direct contributions, rollovers from eligible retirement plans, or direct transfers from eligible retirement plans to purchase service credit for military service or prior service. Employee contributions for any other purpose are not permitted. The District contributes a percentage of each eligible employee's salary to the trust each year. The District's contribution amount is determined by an actuarial study performed at least every two years as long as this plan exists.

Under GASB 27, an employer reports an annual pension cost (APC) equal to the annual required contribution (ARC) plus an adjustment for the cumulative difference between the APC and the employer's actual plan contributions for the year. The cumulative difference is called the net pension obligation (NPO). The ARC for the period July 1, 2007 to June 30, 2008 has been determined by an actuarial valuation of the plan as of June 30, 2006.

**WEST BASIN MUNICIPAL WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**(6) Defined benefit pension plan (Continued)**

**Actuarial Methods**

The actuarial cost method used for this valuation is the Entry Age Normal (EAN) method. The Present Value of Projected Benefits (PVPB) is the present value of all future benefits for current plan participants. The Actuarial Accrued Liability (AAL) represents the portion of the PVPB attributable to past service. The AAL is recognized over service through the date a participant is expected to commence benefits.

The initial unfunded AAL was amortized over 20 years as of July 1, 2002 as a level percentage of expected payroll. Subsequent gains or losses are amortized over 15 years, and plan amendments and assumption changes are amortized over 20 years. Effective June 30, 2006, the plan was split into two plans. At this time, all bases were combined into a single fresh start base which is amortized over 16 years, which is the remaining period of the initial UAL.

Plan funded status based on excess of

- 1) Actuarial Accrued Liability  
over
- 2) Employer assets

The plan is assumed to be ongoing for cost purposes. This does not imply that an obligation to continue the plan exists.

**Actuarial Assumptions**

Assumptions used in the valuation are as follows:

- **Discount rate** 6.5%
- **General Inflation** 3.0%
- **Aggregate Salary Increase** 3.25%
- **Salary Scale**  
Individual increases are the lesser of 5% and inflation.
- **Turnover**  
None assumed.
- **Disability**  
None assumed.
- **Retirement**  
Immediate retirement upon the later of full eligibility for benefits (which is usually the expiration of the third term on the Board), or end of the current term on the Board.

**WEST BASIN MUNICIPAL WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

(6) **Defined benefit pension plan (Continued)**

▪ **Marital Status**

All active participants are assumed to have the same marital status in retirement.

▪ **Percentage of Directors Working Additional Meetings Before Retirement**

75%

(7) **West and Central Basin Financing Authority**

On August 1, 1992 the District and Central Basin Municipal Water District created the West and Central Basin Financing Authority ("Authority") by execution of a "Joint Exercise of Powers Agreement". On August 28, 2007 the Board of Directors voted to approve a resolution to dissolve the Authority. The Authority's net assets and results of operations for the year ended June 30, 2008 and the District's share are summarized as follows:

**Statement of Net Assets**

	<b><u>Total</u></b>	<b><u>District's Share</u></b>
Assets:		
Current assets	\$ -	\$ -
Noncurrent assets	-	-
Total assets	<u>-</u>	<u>-</u>
Liabilities:		
Current liabilities	-	-
Net assets	<u>\$ -</u>	<u>\$ -</u>

**Statement of Revenues, Expenses and Changes in Net Assets**

	<b><u>Total</u></b>	<b><u>District's Share</u></b>
Operating revenues	\$ 7,157	\$ 3,578
Operating expenses	<u>(42,781)</u>	<u>(21,390)</u>
Operating income (loss)	(35,624)	(17,812)
Nonoperating revenues (expenses)	<u>35,624</u>	<u>17,812</u>
Change in net assets	<u>\$ -</u>	<u>\$ -</u>

The Authority operated the headquarters and administrative building for both West Basin Municipal Water District and Central Basin Municipal Water District and was the landlord for the other tenants. The District's share of the Authority's assets, liabilities and results of operations has been included in the District's financial statements, including footnotes, where appropriate. A copy of the Authority's financial statements maybe obtained by contacting Margaret Moggia, Chief Financial Officer at West and Central Basin Financing Authority.

**WEST BASIN MUNICIPAL WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**(8) Other postemployment benefits**

The West Basin Municipal Water District provides postretirement medical benefits to employees who retire directly from the District under CalPERS. To be eligible for District-paid healthcare benefits, retirees must be at least age 55 with 10 years of District service at retirement, or satisfy the newly adopted eligibility requirement of age 50 and the Rule of 75 (age plus CalPERS service equals 75, with a minimum of 5 years District service). For eligible retirees, the District pays the full medical and dental premiums, plus a reimbursement for out-of-pocket medical, dental, and vision expenses up to the active employees' reimbursement caps. Benefit provisions are established and amended by the Board of Directors.

**Benefit Summary**

<ul style="list-style-type: none"> <li>▪ Eligibility</li> </ul>	<ul style="list-style-type: none"> <li>• Retire directly from the District under CalPERS</li> <li>• Age and service requirements:               <ul style="list-style-type: none"> <li>➢ Age 55 with 10 years District service, or</li> <li>➢ Age 50 &amp; Rule of 75 – age plus CalPERS service is at least 75, minimum 5 years District service</li> </ul> </li> <li>• Elected directors not eligible (1 exception)</li> </ul>								
<ul style="list-style-type: none"> <li>▪ Medical Benefit</li> </ul>	<ul style="list-style-type: none"> <li>• District pays full medical premium</li> <li>• Medical Insurance purchased through Association of California Water Agencies (ACWA)</li> </ul>								
<ul style="list-style-type: none"> <li>▪ Dental Benefit</li> </ul>	<ul style="list-style-type: none"> <li>• District pays full dental premium, also purchased through ACWA</li> </ul>								
<ul style="list-style-type: none"> <li>▪ Medical, Dental, and Vision Out-of-Pocket Reimbursement</li> </ul>	<ul style="list-style-type: none"> <li>• District reimburses out-of-pocket expenses for medical, dental, and vision up to the active employees' reimbursement caps:</li> </ul> <table style="margin-left: 40px; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left; border-bottom: 1px solid black;"><u>Coverage</u></th> <th style="text-align: left; border-bottom: 1px solid black;"><u>Active Reimbursement Cap</u></th> </tr> </thead> <tbody> <tr> <td>Single</td> <td>\$ 4,000/year</td> </tr> <tr> <td>2-Party</td> <td>8,000/year</td> </tr> <tr> <td>Family</td> <td>12,000/year</td> </tr> </tbody> </table>	<u>Coverage</u>	<u>Active Reimbursement Cap</u>	Single	\$ 4,000/year	2-Party	8,000/year	Family	12,000/year
<u>Coverage</u>	<u>Active Reimbursement Cap</u>								
Single	\$ 4,000/year								
2-Party	8,000/year								
Family	12,000/year								
<ul style="list-style-type: none"> <li>▪ Surviving Spouse Benefit</li> </ul>	<ul style="list-style-type: none"> <li>• Same medical benefit, dental benefit, and out-of-pocket reimbursement continues to surviving spouse</li> </ul>								

**WEST BASIN MUNICIPAL WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**(8) Other postemployment benefits (Continued)**

**Funding Policy**

The District has adopted GASB 45 for its 2007/08 fiscal year. In 2008/09, the District plans to contribute \$1 million to the CalPERS OPEB Trust, and will pre-fund the full ARC thereafter through the CalPERS OPEB trust. Based on these assumptions, below are the 2007/08 ARC (Annual Required Contribution), AOC (Annual OPEB Cost), and the estimated June 30, 2008 NOO (Net OPEB Obligation).

**Annual Required Contribution (ARC)**

The Annual Required Contribution is the sum of the Normal Cost plus a 30-year level percent of pay amortization of the Unfunded Actuarial Accrued Liability (or less an amortization of excess assets) determined as of the end of the fiscal year.

The 2007/08 Annual Required Contribution determined by this valuation includes the Normal Cost and a 30-year amortization of the unfunded AAL, both as a level percentage of payroll and determined as of the end of the fiscal year (amounts in \$000's):

▪ Normal Cost	\$ 161
▪ UAAL Amortization	<u>125</u>
▪ Total ARC	286
▪ Projected 2007/08 Payroll	2,948
▪ ARC as a % of Payroll	9.7%

**Annual OPEB Cost (AOC)**

The Annual OPEB Cost is the expense recognized on the District's income statement for providing post-retirement healthcare benefits. The AOC will equal the ARC, adjusted for prior differences between the ARC and actual contributions.

The AOC is equal to the ARC, except when the District has a Net OPEB Obligation (NOO) at the beginning of the year. When that happens, the AOC will equal the ARC adjusted for expected interest on the NOO and reduced by an amortization of the NOO. The end of year AOC for fiscal year 2007/08 is determined as follows (amounts in \$000's):

▪ ARC	\$ 286
▪ Interest on NOO	
▪ Amortization of NOO	<u>(0)</u>
▪ Total AOC	286
▪ AOC as a % of Payroll	9.7%

**WEST BASIN MUNICIPAL WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**(8) Other postemployment benefits (Continued)**

**Net OPEB Obligation (NOO)**

The NOO is the historical difference between the ARC and actual contributions. If an agency has always contributed the ARC, then the NOO equals zero. However, contributions have not been "made" for purposes of GASB 45 unless they have been segregated in an irrevocable trust for the sole purpose of paying plan benefits.

Based on the AOC developed above, the estimated June 30, 2008 NOO is (amounts in \$000's):

▪ June 30, 2007 NOO	\$ 0
▪ AOC	286
▪ *Expected 2007/08 contributions	<u>(1,067)</u>
▪ Estimated June 30, 2008 NOO	(781)

\*This contribution for 2007/08 was paid to the Trust after June 30, 2008.

**Benefit Obligations as of June 30, 2007**  
7.75% Discount Rate  
(amounts in 000's)

	<u>Medical &amp; Dental</u>	<u>Medical, Dental, &amp; Vision Out-of-Pocket Reimbursement</u>	<u>Total</u>
▪ <b>Present Value of Benefits</b>			
• Actives	\$ 2,412	\$ 425	\$2,837
• Retirees	<u>464</u>	<u>161</u>	<u>625</u>
• Total	2,876	586	3,462
▪ <b>Actuarial Accrued Liability</b>			
• Actives	1,156	231	1,387
• Retirees	<u>464</u>	<u>161</u>	<u>625</u>
• Total	1,620	392	2,012
▪ <b>Assets</b>	<u>0</u>	<u>0</u>	<u>0</u>
▪ <b>Unfunded AAL</b>	1,620	392	2,012
▪ <b>2007/08 Expected Benefit Payments</b>	50	17	67

**Actuarial Methods**

The actuarial cost method used for this valuation is the Entry Age Normal (EAN) cost method. Under the EAN cost method, the Plan's Normal Cost is developed as a level percent of payroll throughout the participants' working lifetime. The EAN cost method is required by CalPERS for agencies pre-funding through the CalPERS OPEB Trust.

**WEST BASIN MUNICIPAL WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**(8) Other postemployment benefits (Continued)**

The Actuarial Accrued Liability (AAL) is the cumulative value, on the valuation date, of prior Normal Costs. For retirees, the AAL is the present value of all projected benefits. The initial unfunded AAL is being amortized over 30 years as a level percent of payroll, as selected by the District.

The Plan is assumed to be ongoing for cost purposes. This does not imply that an obligation to continue the Plan exists.

**Actuarial Assumptions**

<b>Valuation Date</b>					
• June 30, 2007					
• 2007/08 Plan cost					
<b>Discount Rate</b>					
• The District will pre-fund through CalPERS beginning with fiscal year 2007/08					
• 7.75%, representing CalPERS investment return					
<b>General Inflation</b>					
• 3.0% per annum					
• Same as CalPERS assumption					
<b>Aggregate Payroll Increase</b>					
• 3.25% per annum					
• Same as CalPERS assumption					
<b>Salary Merit Increases</b>					
• CalPERS 1997-2002 Experience Study					
<b>Mortality, Withdrawal, Disability</b>					
• CalPERS 1997-2002 Experience Study					
<b>Retirement Assumption</b>					
• CalPERS 1997-2002 Experience Study					
• Miscellaneous: 3% @ 60					
<b>Healthcare Trend</b>					
		<u>HMO</u>		<u>PPO</u>	
<u>Year</u>	<u>Pre-Medicare</u>	<u>Post-Medicare</u>	<u>Pre-Medicare</u>	<u>Post-Medicare</u>	
2008	10.4%	10.8%	11.3%	11.7%	
2009	9.7%	10.1%	10.5%	10.9%	
2010	9.1%	9.4%	9.8%	10.1%	
2011	8.4%	8.7%	9.0%	9.3%	
2012	7.8%	8.0%	8.3%	8.5%	
2013	7.1%	7.3%	7.5%	7.7%	
2014	6.5%	6.6%	6.8%	6.9%	
2015	5.8%	5.9%	6.0%	6.1%	
2016	5.2%	5.2%	5.3%	5.3%	
2017+	4.5%	4.5%	4.5%	4.5%	