



Midpeninsula Regional
Open Space District

R-19-88
Meeting 19-17
June 26, 2019

AGENDA ITEM 6

AGENDA ITEM

Authorization to contribute a \$2 Million payment of FY2018-19 budget savings to the District's Section 115 Trust administered by Public Agency Retirement Services (PARS).

GENERAL MANAGER'S RECOMMENDATION

Authorization to deposit \$2 Million into the Midpeninsula Regional Open Space District's (District) PARS account established under a Section 115 Trust as further funding of the District's strategy to pre-fund its pension obligations.

SUMMARY

Towards the end of a fiscal year, staff projects savings of salaries and benefits, comparing the adopted budget amounts with the actual projected expenditures to determine a prudent amount to transfer to reduce the District's unfunded pension liability. To close out Fiscal Year 2018-19 (FY2018-19), a transfer of \$2 million into the District's Section 115 Trust held with PARS is proposed. To mitigate the future effects of increases to pension costs due to volatile investment returns and/or changes in actuarial parameters, it is preferable for the District to pursue a strategy to pay down its unfunded liability. The Controller agrees with the proposed transfer.

DISCUSSION

The Board approved a \$3 million prepayment to CalPERS in June 2016 and \$1 million in June 2017 to reduce the District's unfunded pension liability. In 2018, the Board approved the establishment of a Section 115 Trust administered by PARS with an initial funding of \$500,000.

In August 2018, the District received its CalPERS Annual Valuation Report as of June 30, 2017. As of June 2017, the District's CalPERS account had market assets of \$61.9 million, with an unfunded liability of \$51.6 Million, or a funded ratio of 83.3%. This compares favorably to the overall CalPERS funded ratio of 68%.

CalPERS investment returns improved in FY2016-17 to 11.2%, with a decrease to an 8.6% gain in FY2017-18. In line with the de-risking policy implemented by CalPERS adopted in 2016, the discount rate will be lowered according to the following schedule:

FY2017-18	7.375%
FY2018-19	7.25%
FY2019-20	7.00%

The latest CalPERS Valuation Report available is dated June 30, 2017 and the June 30, 2018 report will not be available until August 2019 at the earliest. The evolution of the District's funded ratio below is dynamic and should be viewed with the caveat that the market value of plan assets is

driven by market returns (gains/losses) and the accrued liability is a function of changes to actuarial assumptions and the discount rate.

	<u>Market Value of Plan Assets</u>	<u>Accrued Liability</u>	<u>Funded Ratio</u>
June 30, 2017	51,589,733	61,906,181	83.34%
Pre-funding Contribution 2017-18	<u>500,000</u>		
June 30, 2018	52,089,733	61,906,181	84.14%
Pre-funding Contribution 2018-19	<u>2,000,000</u>		
June 30, 2019	54,089,733	61,906,181	87.37%

BOARD COMMITTEE REVIEW

This item was not reviewed by any Committee.

FISCAL IMPACT

The proposed contribution will be a payment towards reducing the District's unfunded pension liability. This contribution is offset by projected savings in salaries and benefits as budgeted for FY2018-19. The added benefit of the contributions to PARS is that the District can transfer these funds to CalPERS at any point in time and could be used to pay the District's ongoing pension obligations if there was a severe economic downturn or deterioration in the District's finances.

PUBLIC NOTICE

Public notice was provided pursuant to the Brown Act. No additional notice is required.

CEQA COMPLIANCE

The recommended action is not a project for purposes of the California Environmental Quality Act.

NEXT STEPS

Upon approval, transfer \$2 million to the Section 115 Trust prior to the end of the Fiscal Year.

Responsible Department Manager:
Stefan Jaskulak, Chief Financial Officer

Prepared by:
Andrew Taylor, Finance Manager and Disclosure Coordinator