



Midpeninsula Regional
Open Space District

R-20-65
Meeting 20-13
June 26, 2020

AGENDA ITEM 6

AGENDA ITEM

Authorization to contribute a \$1.5 Million payment of the Fiscal Year 2019-20 budget savings to the Section 115 Trust administered by Public Agency Retirement Services (PARS)

GENERAL MANAGER'S RECOMMENDATION

Authorize the General Manager to deposit \$1.5 Million into the Midpeninsula Regional Open Space District's PARS account established under a Section 115 Trust to pre-fund pension obligations.

SUMMARY

Towards the end of a fiscal year, staff evaluates and projects savings of salaries and benefits, comparing the adopted budget amounts with the actual anticipated expenditures to determine a prudent amount that can be transferred to reduce the unfunded pension liability. To close out Fiscal Year 2019-20 (FY20), the General Manager recommends a transfer of \$1.5 million into the Midpeninsula Regional Open Space District's (District) Section 115 Trust held with PARS. 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 of paying down its unfunded liability. The District 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 and an additional \$2 million was approved in June 2019.

The District received its most recent CalPERS Annual Valuation Report in July 2019 (valuation date of June 30, 2018). As of June 2018, the District's CalPERS account had market assets of \$69.1 million, with an unfunded liability of \$12.6 Million, or a funded ratio of 81.7%, down slightly from the prior year's ratio of 83.3%. The District's funding ratio increased to 85.36% when including the \$2.5 million in the Section 115 Trust administered by PARS, and would increase to 87.53% with the proposed \$1.5 million additional funding of the 115 Trust (see table on following page). This compares favorably to the overall CalPERS funded ratio of 71% as of June 30, 2018.

CalPERS investment returns have varied over the last three fiscal years:

FY2017	11.2%
FY2018	8.6%
FY2019	6.7%

CalPERS will report initial FY2020 returns in July, however with the financial market impact of COVID-19, the expectation is for returns to further decline. As of May 5, 2020 CalPERS reported a portfolio market value of \$372.9 billion as compared to \$372.6 billion at June 30, 2019. Pressure on CalPERS funding may further increase if the economic effects of the COVID-19 become more long-term in nature.

In line with the de-risking policy implemented by CalPERS as adopted in 2016, the discount rate has been lowered according to the following schedule:

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

The latest CalPERS Valuation Report for the District is dated June 30, 2018 and the June 30, 2019 report will not be available until sometime this summer. The evolution of the District’s funded ratio as shown 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>
CalPERS Valuation June 30, 2018	56,520,646	69,142,343	81.74%
Pre-funding Contributions FY18 and FY19	<u>2,500,000</u>		
	59,020,646	69,142,343	85.36%
Pre-funding Contribution FY2020	<u>1,500,000</u>		
June 30, 2020	60,520,646	69,142,343	87.53%

BOARD COMMITTEE REVIEW

This item was not previously 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 in FY2019-20. 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, and is especially prudent in light of the potential impacts from COVID-19.

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, the General Manager will authorize the transfer of \$1.5 Million to the Section 115 Trust prior to the end of the Fiscal Year.

Responsible Department Manager:
Stefan Jaskulak, Chief Financial Officer

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