



Midpeninsula Regional
Open Space District

R-24-73
Meeting 24-16
June 12, 2024

AGENDA ITEM 6

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Authorization to Contribute a \$1.6 Million Payment from Fiscal Year 2023-2024 Budget Savings to the Section 115 Trust Administered by Public Agency Retirement Services (PARS)

GENERAL MANAGER'S RECOMMENDATION

Authorize the General Manager to deposit \$1.6 Million into the Midpeninsula Regional Open Space District's PARS account established under a Section 115 Trust to pre-fund pension obligations.

SUMMARY

At the approach of the fiscal year end, staff evaluates and projects savings of salaries and benefits, comparing the adopted budget amounts with the actual and anticipated expenditures for the fiscal year to determine a prudent amount that can be allocated to reduce the unfunded pension liability. Based on the most current review of Fiscal Year 2024 (FY24) salary expenditures, the General Manager recommends a transfer of \$1.6 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

In 2018, the Board approved the establishment of a Section 115 Trust administered by PARS with an initial funding of \$500,000 and the following additional funding:

FY19	\$2.0 million
FY20	\$1.5 million
FY21	\$1.0 million
FY22	\$1.5 million
FY23	\$1.5 million

The District received its most recent CalPERS Annual Valuation Report in July 2023 (valuation date of June 30, 2022) for the Classic Pension Plan (2.5% at 55). As of June 30, 2022, the District's CalPERS account had market assets of \$74 million, with an unfunded liability of \$19.9 million or a funded ratio of 78.8%. The funded ratio decreased from 91.5% in the prior year, as CalPERS reported a 6.1% net loss on investments for Fiscal Year 2021-22. Prior year gains have offset this loss which resulted in an unchanged discount rate of 6.8%. The District's funding ratio increases to 87.3% when including the \$8.0 million (88.5% including investment returns) in the Section 115 Trust administered by PARS, and would increase to 90.2% with the proposed \$1.6 million

additional funding of the 115 Trust (see table below). This compares favorably to the overall CalPERS funded ratio of 70.9 % as of June 30, 2022.

	Market Value of Plan Assets	Accrued Liability	Funded Ratio
CalPERS Valuation June 30, 2022	\$73,987,192	\$93,918,578	78.8%
PARS Pre-funding Contributions FY18-23 (before investment returns)	\$8,000,000		
Estimated Valuation with Pre-funding Contributions	\$81,987,192	\$93,918,578	87.3%
PARS Investment Returns from FY18-23 Pre-funding Contributions	\$1,154,634		
Estimated Valuation with Pre-funding Contributions (including investment returns)	\$83,141,826	\$93,918,578	88.5%
Proposed PARS Pre-funding Contribution FY24	\$1,600,000		
Estimated Valuation June 30, 2024	\$84,741,826	\$93,918,578	90.2%

In line with the Funding Risk Mitigation Policy adopted by the CalPERS Board in 2015, the discount rate has gradually been lowered, which inherently increases the unfunded liability. The discount rate was dropped to 6.8% in July of 2021 and remained unchanged for FY23.

FY18	7.375%
FY19	7.25%
FY20	7.00%
FY21	7.00%
FY22	6.80%
FY22	6.80%
FY23	6.80%

The next CalPERS Valuation Report for the District dated June 30, 2023 will not be available until July/August 2024. The evolution of the District's funded ratio as shown in the table above 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.

PRIOR BOARD AND COMMITTEE REVIEW

None

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 budgeted in FY24. 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, staff will transfer \$1.6 Million to the Section 115 Trust at PARS prior to the end of FY24.

Responsible Department Manager:
Stefan Jaskulak, Chief Financial Officer

Prepared by/Contact person:
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