AGENDA
REGULAR MEETING
BOARD OF DIRECTORS

EAST BAY REGIONAL PARK DISTRICT

Tuesday, November 8, 2011

C. BUSINESS BEFORE THE BOARD

6. BOARD COMMITTEE REPORTS

c. Finance Committee Minutes and Recommended Actions from the September 21, 2011 Meeting (Sutter)

Attendees

Board Committee: John Sutter (Chair), Ayn Wieskamp, Whitney Dotson

Staff: Dave Collins, Cinde Rubaloff, Pam Burnor, Carol Victor, Meadow D'Arcy, Deborah Spaulding, Susan Gonzales, David Sumner, Bill Louie, Sally Cahill, Sharon Corkin, Anne Scheer, Megan Jones

Bartel and Associates John Bartel
Doug Pryor

Public: None

Chairperson John Sutter began the meeting at 12:50PM with introduction of the committee members and introduction by individuals attending the meeting.

Agenda Item No. 1
CalPERS Actuarial Issues, June 30, 2009 Valuation Date

CFO Cinde Rubaloff introduced John Bartel and Doug Pryor with Bartel and Associates, which provides actuarial information about District retirement and other postemployment benefits plans. Annually, Bartel and Associates provides an update on the status of the District's CalPERS retirement plans – one for miscellaneous employees and one for safety employees.

Bartel reported that all of the District's active safety employees are in a "pooled" retirement plan with CalPERS. The following information was reviewed:

- The pool is made up of many agencies lacking the requisite number of safety employees to be in their own individual plans.

- Rates are based upon data for the entire "pool" of participants, not solely the District's safety employees.

- Because District staff are members of the "pool," the District has no ability to influence the CalPERS safety contribution rate.

- Bartel forecasts the safety contribution rate to increase from 19.1% in 2010/2011 to 24.1% in 2011/2012, a 5% increase.

- Following this large increase in 2011/2012 rates, Bartel projects that the rate will increase modestly through 2014/2015 and then begin a very slight decline.

- The 2016/2017 rate is projected to be 25.2%.

CalPERS' miscellaneous plan covers all non-safety employees of the District who are not covered in the EBRPD Retirement Plan:

- In June, 2010 the District implemented a "fresh start," with the goal of stabilizing the contribution rate.

- The June 30, 2009 Valuation Actuarial Review confirms the success of stabilizing the contribution rate at 20% for 2011/2012.

- In the current actuarial study, this rate is expected to increase minimally through 2016/2017, when it will reach 21%.

John Bartel reported that the District's miscellaneous plans' funded status has grown from 61% in 2005 to 73% in 2011.

- During that time period, liabilities have grown from $97 million to $195 million.

- District assets have grown from $59 million to $142 million.

- During that same time period, contribution rates have increased from 15.3% to 20%.

Mr. Bartel commented that the District's decision to contribute more than the CalPERS recommended contribution is working exceptionally well for the District and has decreased the amortization period for the unfunded liability.

Director Sutter asked for and received clarification of the actuarial investment return. Mr. Bartel noted that the actuary compares the market value to actuarial value and the actuarial value is a "smoothed market" value. He used the following example to further explain: As of June 30, 2008 the gain/loss market return was minus -12.9% and the actuarial return (smoothed) was 0.1%.

Director Sutter wanted to know if the District could move the safety employees out of the CalPERS pooled safety plan. Mr. Bartel responded that CalPERS requires agencies with fewer than 100 employees to be in the pooled plan. The pooled plan is a disadvantage for the District because its retirement payouts are low compared to other agencies with high disability retirement payments. The District subsidizes these other agencies.

John Bartel recommended that the District express its dissatisfaction with the current CalPERS system, which unfairly penalizes agencies with low costs and benefits the agencies with high costs.

AGM Dave Collins added that due to the 2010 "fresh start" and the subsequent 2011 "fresh start," the District has stabilized its contribution rate at 20%. Mr. Bartel responded that the 20% contribution rate is appropriate. Director Wieskamp asked how often the District could do a "fresh start." Mr. Bartel responded that it is an annual possibility.

Agenda Item No. 2.
EBRPD Retirement Plans January, 2011 Actuarial Study

CFO Rubaloff reported that the District also employs Bartel and Associates to provide actuarial information about retirement and other postemployment benefits plans. Biennially they perform an actuarial study for the EBRPD Retirement Plans (formerly Transamerica).

Bartel determines the annual contribution amounts for the general employees and the sworn safety plans. The contribution amount is based upon the discount rate and the amortization period for the unfunded liability. The following information was shared with the Committee:

- Adjustment to the discount rate is required for this year's study. The previous rate of 7.25% is unattainable in the current market with the District's current asset mix.

- The expected return of the current asset mix is actually 6.06%. After taking into account administrative fees, the current discount rate has been modified to 5.75%.

- Corresponding to the decrease in discount rate is the rise in annually required contributions. In the effort to maintain stability in the annual contribution amount, the District will slightly modify the amortization period from the current 10 year for initial unfunded liability and 15 years for subsequent changes, to an overall period of 13 years.

Mr. Bartel reported the 2012 general employee contribution amount is $2,048,000 plus the employees' contributions of 8.15% and 8.55% for management and other employees, respectively. The 2012 sworn safety contribution amount is $186,000. There are no longer any safety employee contributions as there are no longer any active safety participants in this plan.

The General Employees plan is transitioning toward "closed" status, meaning that it is approaching a time when there will be no active employees in the plan; all members will be either retirees receiving benefits or separated employees not yet receiving benefits.

Currently there are only 16 active employees plus 6 Board members in the EBRPD General Employees Retirement Plan. The sworn safety plan is already in "closed" status.

Mr. Bartel reported that this transition in status has several implications for the District:

1. The demographic of the plan members is aging; therefore, the investment horizon must be shortened to fund earlier payouts than would be expected for a younger workforce.

2. The allocation of plan asset mix must be modified to reduce risk and volatility. A shorter time horizon for payment means that the plan needs a more reliable investment return and has less chance to recover from serious investment losses similar to those we've seen recently.

3. These factors, when combined with the current need to adjust the discount rate down from 7.75% to 5.75%, and the ongoing need to continue the reduction in rate as our asset mix is modified, are having an adverse impact on the funded ration of the plan. The percent funded ratio is likely to drop to near 60% for the General Employees Plan, and less than 50% for the Safety Plan.

4. These low funding levels require the District's early attention.

Mr. Bartel added that there are two basic strategies to bring plan funding to a more prudent level:

1. Increase the ongoing annual contribution rates for both plans, or
2. Make one or more "extraordinary" contributions to the plans.

The additional annual contribution rate, approaching an additional $1 million/year would be a serious burden to the District's annual budget. An "extraordinary" payment from General Fund unreserved fund balance may be the preferable option. Such a payment would be similar to a transfer and permanent commitment of funds to the pension plan. The impact of a $3 million extraordinary contribution would raise both plans to an approximately 63% funded level. Future "extraordinary" payments could be considered should the need and/or opportunity permit.

CFO Rubaloff noted that in Bartel's report, information has been provided about estimated returns that can be expected for various investment asset mixes. The recommended goal for plan funding is to move towards a mix of 80% fixed income securities by the time the plan is 90% funded. Staff will request formal approval from the Finance Committee during the October meeting to modify the asset allocation mix after the Committee has received the new Asset Liability Model report from Milliman, the plans investment advisors.

Director Sutter commented that there are only 30 sworn safety participants and asked whether it would it be advantageous to purchase annuities. Doug Pryor responded that annuities cost more and provide lower returns, so there would be no advantage to using that funding mechanism. John Bartel added that the District should periodically review the annuity idea, which may become cost effective as the number of plan participants decrease.

Recommendation. Moved by Director Ayn Wieskamp and Seconded by Director Whitney Dotson to Accept the January 1, 2011 EBRPD Retirement Plans actuarial study and recommend acceptance to the Board of Directors. Motion Approved.

Recommendation. Moved by Director Ayn Wieskamp and Seconded by Director Whitney Dotson to make an "extraordinary" payment of $3 million from the General Fund unreserved fund balance and recommend acceptance to the Board of Directors. Motion Approved.

Agenda Item No. 3
Mid-year Review of Internal Audit Projects

Audit Manager David Sumner informed the Committee about the District's internal controls, which are the policies, procedures, systems, and practices that the District establishes and enforces to ensure safeguarding of assets and accomplishment of objectives. The Internal Audit staff assists management in design, implementation, and modification of the internal controls, through monitoring and evaluating the District's system of internal control, in conjunction with the audit of the District activities and related operations. The Internal Audit staff reviews financial transactions, cash handling practices, District-funded grants, concession agreements, contracts, and RFP's, assists with the development of the District's Comprehensive Annual Financial Report (CAFR), and performs other duties as assigned.

Audit Manager Sumner reported that during the period of January through August 2011, staff worked on fourteen audit projects that included:

- Measure WW Grants.
- Contra Costa County Work Alternative Petty Cash.
- Shadow Cliffs Concession.

Director Sutter noted that the check listing he reviews before each Board meeting includes significant monthly payments (over $200,000) to the District's credit card program provider, and inquired about the review process for this program.

Audit Manager Sumner responded that the internal audit of the credit card program is included on the 2011 internal audit plan. Additionally, there are Finance procedures in place to ensure that credit card purchases are in compliance with District procedures. It was also noted that the use of credit cards is a more efficient way to order supplies and services and to pay vendors and reduce paper work.

Director Sutter asked how much time internal audit staff spends on the internal audit function.

Audit Manager Sumner responded that since the Accountant was hired earlier in 2011 (after approximately 9 months with a vacancy), internal audit staff spends approximately 90% of their time on internal audit function.

CFO Rubaloff affirmed that the internal audit function is very valuable to the District, and that the past practice of using internal audit staff to fill in other projects has been severely inhibited so they can focus on their core tasks of internal audit.

Recommendation: None. This is an informational item only.

Agenda Item No. 4.
Measure WW Spending Plan Update and Resolution of Anticipation

AGM Dave Collins reviewed the outstanding debt related to Measure WW with the Committee:

- In 2009 the District issued the first $80 million in bonds pursuant to the $500 million authority granted the District under Measure WW. The 2009 bond series was combined with refinancing of a portion of the remaining Measure AA bonds. This was done to both take advantage of historically low bond interest rates and to structure the bonds to adhere, as much as was financially appropriate, to the District's commitment to keep the tax rate for both AA and WW combined at or under $10 per $100,000 of assessed valuation for property owners. The 2009 bond sale relied on the use of capitalized interest to pay the early debt service on the new bonds and deferred the initial levy of taxes for repayment of WW bonds until March of 2012.

- 2012 is the first year that Measure WW bond interest will be primarily funded through the current tax levy. Every year staff seeks and receives authorization from the Board to submit required information to the Counties to include the cost of bond repayment in each property owner's tax bill. For the 2011/12 year, the levy rate is .0071%, or $7.10/$100,000 of AV, compared to .0084% in 2010/2011 and .01076% in 2009/2010. The levy covers both Measure AA and

Measure WW debt service. Based on forecasts of future AV changes and anticipated bond sales, staff believes that the levy can be kept safely below the threshold in future years.

<u>AGM Collins</u> then presented updates on the current status of Measure WW 2009 bond proceeds as follows:

- As of the end of the third quarter of 2011, the balance of unspent Measure WW project funds was approximately $46 million. The project funds are retained by the trustee, Union Bank, and are reimbursed to the District upon evidence of payment of a valid Measure WW expense.

- The Board has approved District project appropriations over the last two years in the amount of $30 million (from a total available of $348,750,000). Taking into account the 7% reserve and interest earned, $345.8 million is available for appropriation; $241 million to acquisition and $78.1 million to development.

- Of the $125 million available for the Local Grant programs, applications in the amount of $78.8 million have been received (to date $67 million have been approved). Based on past patterns of reimbursement requests by local agencies, staff anticipates seeking additional reimbursements of approximately $19 million for the Local Grant Program in 2012.

- Total appropriations for Measure WW exceed the $80 million in bond principal received in 2009; however the actual draw down of funds from the trustee lags significantly behind the appropriations due to the inherent time required completing projects, sometimes several years.

- The District has the ability to sustain this discrepancy between appropriations made and funding in hand because we have adopted a "resolution of intention" that formally expresses the District's intent and ability to pay for WW expenditures in advance of the next bond issue, if necessary, but still retain their eligibility for reimbursement under the program upon sale of the next series of bonds.

<u>AGM Collins</u> also shared information related to the issuance of new bonds as follows:

- Although it would be ideal to issue the next series of bonds in late 2011 or early 2012 to take advantage of historically low bond interest rates, this is not recommended due to the current balance of unspent project funds remaining at this time.

- Staff is anticipating issuance of the second series of Measure WW bonds in 2013. Should this level of project activity and/or local grant program reimbursement activity increase significantly, the schedule will be reconsidered.

The Committee was given a listing of Measure WW Remaining Balances by Park and a Measure WW Local Grant Report.

Director Sutter inquired if there were a time limit for agencies to spend their Measure WW local grant funds. AGM Collins responded that there is no time requirement, and it is up to the individual agency to submit their reimbursement request in a timely manner.

In relationship to issuing new Measure WW debt, Director Sutter inquired about how staff determines what a reasonable cash cushion of bond proceeds to have on hand is, and what would happen if the District exceeded that cushion. AGM Collins responded that we have a Board approved "resolution of anticipation" which will qualify all costs incurred in excess of 2009A bond project fund balances for reimbursement by the next Measure WW bond issue. Additionally there is no cash flow issue, as the District's cash and investment balances are great enough to advance payments as required until the second Measure WW bond project funds are available.

Director Wieskamp noted that the City of Pleasanton has submitted applications for $3 million in projects, but not any reimbursement requests. AGM Collins confirmed that the City of Pleasanton has not submitted any reimbursement requests for their approved projects.

Recommendation; None. This is an informational item only.

Agenda Item No. 5.
2011 Beacon Economic Report

AGM Collins presented a report to the Committee from Beacon Economics covering the 2011/12 and future property tax forecast and implications for the District's 2012 and future budgets.

Property tax revenues constitute approximately 80% of the District's General Fund revenues. The District's annual budget planning is highly sensitive to changes in the major funding source. To ensure that the District's budget is as accurate as possible, each year the District contracts with Beacon Economics to provide a forecast of changes to assessed valuation of property within the District, which then enables the District to project the changes to property tax revenues the District can expect to receive in future years. Information was shared as follows:

- For the 2012 tax year, the District's net expected change in assessed valuation, based on the County's tax bill information is an increase of .1%. This means staff anticipates receiving effectively the same amount of property tax revenue in the first half of 2012 as was received in the first half of 2011.

- Beacon's forecast for the 2012/13 year is a positive change of between 0% and .7%. This means that the average expected change in tax revenue for the second half of 2012 is +.35%. Again, this small change suggests that tax revenues will remain effectively flat between the 2011 and 2012 budget years.

- Beacon's current forecast suggests that the property values are currently at their bottom, but that recovery to an annual, sustainable, growth rate of near 4% will be slower than previously anticipated, and the District's recovery to 2008 tax revenue levels will take three more years.

AGM Collins noted that Beacon is currently projecting a longer, slower recovery, with expectation of some positive progress by 2015.

AGM Collins added\ that 2012 should be relatively flat and that staff anticipates using $2.5- $3 million from "smoothing" reserves.

Recommendation: None. This is an informational item only to receive and review the Beacon report on 2011/12 and future property tax forecast and discusses implications for the District's 2012 and future budgets.

Agenda Item No. 6
Public Comment

There were no public comments.

Director John Sutter adjourned the meeting at 2:35P.M. The next meeting of the Board Finance Committee is scheduled for **12:45P.M. on Tuesday, October 25, 2011**, in the Board Room, Peralta Oaks.

Respectively Submitted,

Robert W. Stagnaro
Confidential Secretary
Finance Department