



EAST BAY REGIONAL PARK DISTRICT
BOARD FINANCE COMMITTEE
AGENDA STATEMENT
MEETING DATE – Tuesday, October 25, 2011

SUBJECT: EBRPD Retirement Plans Long-term Asset-Liability Study and Amendment to the EBRPD Retirement Plans Investment Policy

- Agenda Statement Prepared by: Cinde Rubaloff, CFO/Controller
- Report Prepared by: Milliman (EBRPD Retirement Plans' Investment Advisor)

ATTACHMENTS: Attachment A: East Bay Regional Park District Asset-Liability Study for General and Safety Plans
Attachment B: Statement of Investment Policy for the East Bay Regional Park District Retirement Plans October, 2011 Revision (redlined)

RECOMMENDATION: Review the proposal for the long-term strategic asset allocation approach presented at this meeting and recommend acceptance to the Board of Directors. Additionally recommend the associated revisions to the Statement of Investment Policy for the EBRPD Retirement Plans.

DESCRIPTION:

The District employs Milliman, Inc., an independent investment advisor, to assist with the review and analysis of the EBRPD Retirement Plan (the Plan) investments. Milliman staff reports annually to the Finance Committee on investment status and performance. They reported on 2010 performance at the March, 2011 Finance Committee meeting.

Additionally, the District employs Bartel and Associates as actuaries for the Plan. They presented their 2011 report at the September, 2011 Finance Committee meeting.

It was determined by Milliman, Bartel, and District staff that the Plan required a detailed asset-liability study to determine a current reasonable discount rate, as well as a prudent asset mix as this plan reaches "closed" status with no new participants and very few remaining active participants. The premise is that a closed plan's investment approach must be increasingly conservative, as benefit payments increase as a percentage of assets.

The presentation to the Committee will focus on slides 9, 10, 11 and 12 of the consultant's report (Pages 11,12,13,14) in this packet. Millman's full, detailed report is attached as Attachment A for the Committee's reference only.

Milliman's report discusses the "de-risking" strategy. It is recommended that the asset allocation immediately be modified to 50% equity (from 53%) and 48% fixed income (from 45.6%), plus 2% cash (from 1.4%). Within these major classes, the current asset allocation targets increase international equity from 5% to 10%, and US intermediate duration fixed income from 0% to 20%.

The General Employees plan is currently at 59% funded status. This will rise to approximately 63% funded after accounting for the \$3 million extraordinary contribution recommended by the Finance Committee in September and approved by the Board October 18, 2011. Under this investment strategy, when the plan reaches 80% funded status the asset allocation will adjust to 40% equity, 55% fixed income, and 5% cash. When the plan reaches 90% funded status the mix will be altered to 15% equity, 80% fixed income, and 5% cash.

As the asset mix becomes more conservative [increased investments in fixed income category (less volatile) and lower investments in equity (higher volatility)], the discount rate will decline as the investment returns fall. 80% funded asset mix will result in 5.25% discount rate, and 90% funded asset mix will result in 5.0% discount rate.

The timing of reaching 80% and 90% funding will be determined by the District's ability to make extraordinary contributions. If the District continues to make annual required contributions as determined by the actuary, 2021 is the estimated year the plan will reach 80% funded status. If the District has the opportunity to make additional extraordinary contributions, the 80% funded status could be reached sooner. The benefit of reaching 80% funded status sooner is the ability to reduce the plan's risk exposure sooner; however, the drawback is the requirement to commit significant current-year funding to the plan.

The plan's investment policy defines the approved asset allocation targets and investment manager allocation targets. If the asset-liability study's recommendations are approved, the investment policy will need amendment. The redlined version of the investment policy is attached as Attachment B. The amendment includes the specific allocations for the current asset mix (asset mix 1), asset mix 2 (to be activated when the plan reaches 80% funding status) and asset mix 3 (to be employed when plan reaches 90%) funding status. The revision to the investment plan requires Board approval.

Staff, Bob Helliesen and Tim Price, of Milliman, Inc., will present the materials, the results of the asset-liability study and their recommendations for long-term strategic plan asset allocation.

It is requested that the Finance Committee review, discuss and direct staff to submit the East Bay Regional Park District Asset-Liability Study for General and Safety Plans, in addition to the updated Statement of Investment Policy for the East Bay Regional Park District Retirement Plans October, 2011 revision, to the Board of Directors for favorable consideration.

East Bay Regional Park District

Asset-Liability Study for General and Safety Plans

Presented by:

Bob Helliesen, CFA
Principal

Timothy Price, CFA
Senior Investment Consultant

October 25, 2011

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Executive Summary

ATTACHMENT A

Milliman was commissioned to conduct this asset-liability study on behalf of the East Bay Regional Park District (the District) Retirement Plans. Most of the District's current employees participate in the CalPERS plan, but a number of longer-tenured employees opted to remain in the legacy retirement plans. As a result, the legacy Plans are dominated by retirees with relatively few active employees. Over the coming decades, the Plans' assets will need to be invested in an increasingly conservative manner (referred to in this report as "de-risking") as benefit payments increase as a percentage of Plan assets. Given that the General Plan represents nearly 90% of the overall liabilities, we have used the funded status of this Plan as the trigger for implementing the de-risking strategy. The purpose of this study is to determine the best way to fund these retiree benefit payments and to increase the certainty of achieving the Plan's investment goals while simultaneously improving the funding status of the Plans.

Milliman recommends in this report that the District implement a "de-risking" strategy of moving to increasingly conservative asset mixes as the funding status improves.

The first stage of implementing this strategy was anticipated in Bartel Associates' (the District's actuary) recommendation to reduce the actuarial interest rate from 6.75% to 5.75% (presented in their September 21, 2011 valuation report). The decision to move to this lower discount rate was made in consideration of moving to a new asset mix recommended by Milliman (Mix 1 in this report). The next phase will be to maintain the Mix 1 allocation and make regular payments annually until the General Plan reaches 80% funded status on a market value basis. We then recommend moving to Mix 2 and maintaining the program until the General Plan reaches 90% funded status. At this point, Mix 3 is implemented and no further changes will be required.

This study lays out the rationale for and impact of implementing the recommended de-risking strategy, along with an example of how to accelerate the de-risking process by making additional contributions over the next several years.

Purpose

This study estimates the expected levels, trends, and possible variability over the next twenty years of the plan's annual contributions and funded status under the current policy asset allocation. We also examine the impact of moving towards progressively more conservative asset allocation mixes as the Plans' funding status improves

Methodology

The Plans are closed pools with no new entrants. Therefore, this study focuses on the impact that different asset mixes and funding patterns would have relative to the future liabilities, which are treated as being fixed in this report. This study used 500 stochastic projections of the growth in plan assets over the next 20 years based on a set of capital market assumptions developed by Milliman. For each projection, we examine the impact on annual contributions, cumulative contributions, funded status and the market value of assets.

For the District, we have modeled the Plans as frozen plans in order to keep the overall costs of the study down. There are very few active employees currently in the plan and both the Milliman and Bartel actuaries agreed that this was an appropriate approximation of the population.

The final component of the study is the cost calculation model. This is the model that is used by Milliman to analyze different asset allocations and funding strategies. This model pulls together the values of the assets and the liabilities and projects changes to the required contributions and accounting measures (and any other measures that we wish to analyze). We analyze each potential scenario by using a Monte Carlo simulation of various return paths and focusing on the median outcome.

Goals and Objectives

The plan is closed to new entrants with few active participants accruing benefits. Recommended contributions are determined using the Projected Unit Credit Method. As of January 1, 2011, the General Employees' Plan was 58.5% funded on an Market Value of Assets basis. (The much smaller Safety Plan was 42% funded on January 1, 2011.)

The recently adopted policy asset mix is 50% equity / 50% fixed income with the following targets:

- 40% US Equity
- 10% Developed Non-US Equity
- 28% US Core Fixed Income
- 20% US Intermediate-Duration Fixed Income
- 2% Cash

We pursued two goals with our study:

1. Improve the funded status of both Plans (into the 80-90% range) as quickly as possible.
2. Move to progressively more conservative asset mixes as the Plans progress towards their natural termination.

Baseline

Assumes ARC payments beyond 2012

2011

2021

2024

General Plan is 59%
Funded

General Plan achieves
80% funded status or
better (based upon
median projection)

**General Plan achieves
90% funded status or
better (based upon
median projection)**

Why De-Risk the Portfolio?

ATTACHMENT A

- While the future payments to retirees are largely determined, future performance of the investment portfolio is not.
- There is a tradeoff between the potential for return and the certainty of achieving that return.
- Given the closed nature of the Plans, the preference will tilt from return generation with significant uncertainty to a more modest return expectation that can be achieved with increased certainty.

2011 Capital Market Assumptions

- Milliman's Asset Allocation Committee developed the following 2011 capital market assumptions which represent expected market performance for each asset class over a 10-year investment time horizon.
- We use a Global Capital Asset Pricing Model (Global CAPM) methodology to reflect equilibrium returns for most asset classes.
- Expected return assumptions (except for private equity and hedge funds) represent expected market index returns for each asset class and do not include potential excess returns from active management or any adjustments for active management fees.
- Historical estimates of volatility (standard deviation) and correlations are used, in line with academic research. Milliman adjusts certain capital market assumptions to reflect changes in market conditions and/or the nature of the asset class.
- The fixed income returns were lowered from long-term expectations for Mixes 1 and 2 to reflect our assumption that yields will rise over the next five-seven years. The fixed income returns for Mix 3 assumed that returns stabilize near historical yields.

Proposed Asset Mixes

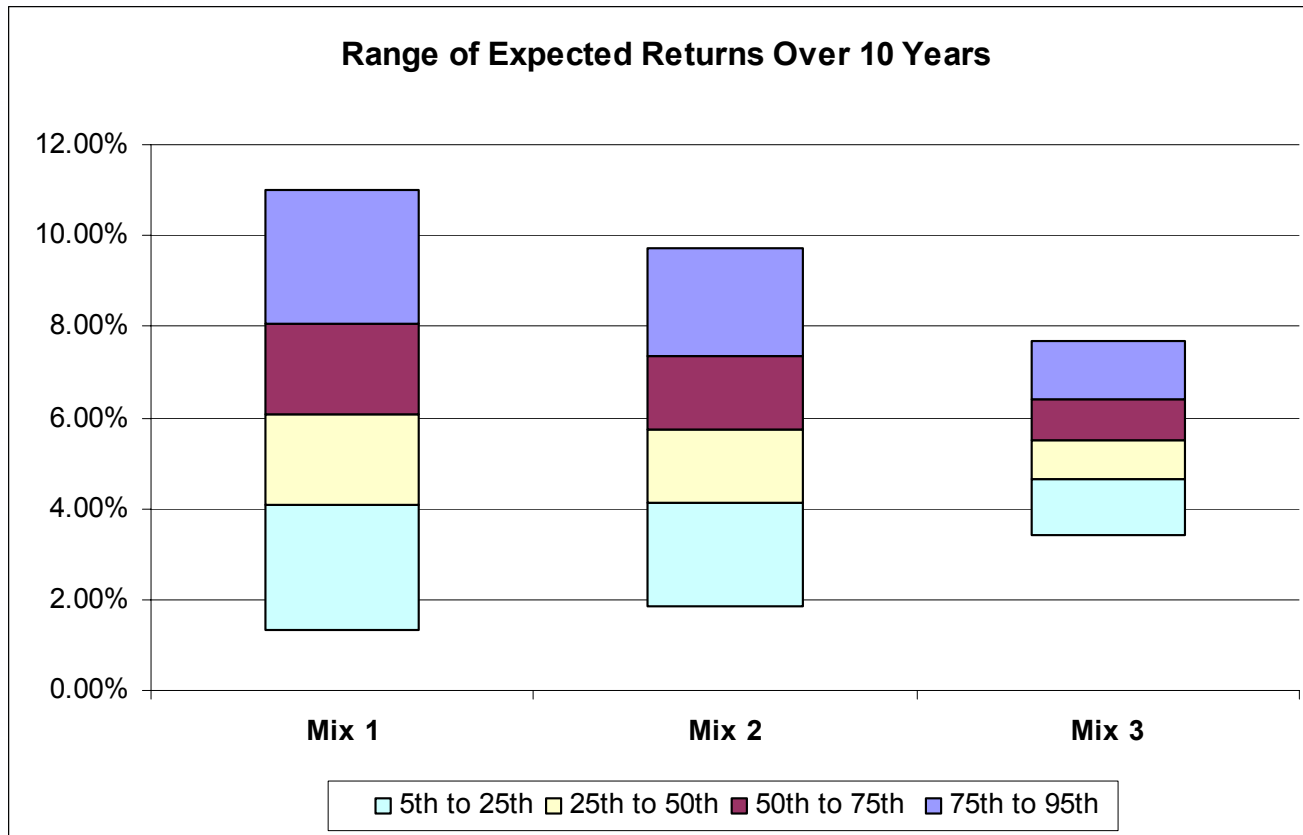
ATTACHMENT A

Milliman has proposed three increasingly conservative asset mixes for the portfolio, outlined below:

	Mix 1	Mix 2	Mix 3
Domestic Equity	40%	30%	15%
Non-US Equity	10%	10%	-
Core Bonds	28%	25%	25%
Intermediate Bonds	20%	30%	55%
Cash	2%	5%	5%
Arithmetic (Annual) Return	6.5%	6.0%	5.6%
Geometric (10 yr) Return	6.1%	5.7%	5.5%
Standard Deviation	9.4%	7.6%	4.1%
Discount Rate	5.75%	5.25%	5.00%

Certainty of Achieving Investment Returns ATTACHMENT A

The three proposed asset mixes each provide a significant reduction in portfolio volatility from its predecessor. The chart below shows the range of potential outcomes from the 5th to 95th percentile.



Scenario 1

Assumes ARC payments beyond 2012, Portfolio De-Risking



Scenario 2

ATTACHMENT A

Assumes ARC payments, special contributions, portfolio de-risking

2011

2016

2021

General Plan is 59%
Funded

General Plan achieves
80% funded status or
better

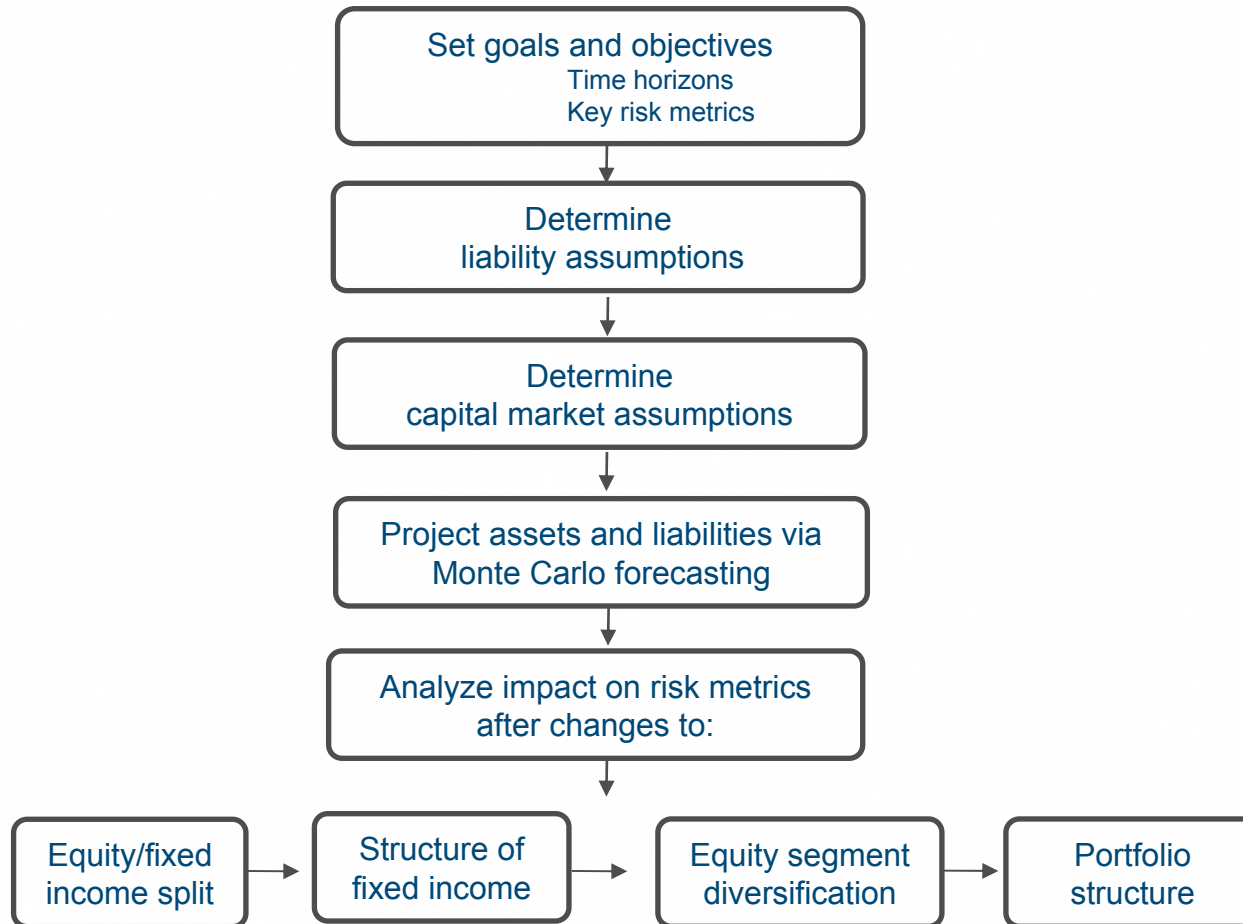
**General Plan achieves
90% funded status or
better**

Special \$2 mm
contributions (in
addition to ARC
payments) made in
2012, 2013 and 2014

Move to Mix 2, shift to
5.25% discount rate
five years earlier than
in Scenario 1

**Move to Mix 3, shift to
5.00% discount rate
four years earlier than
in Scenario 1**

Asset / Liability Modeling Process



Projection Process

- For each 20-year projection, we ran 500 stochastic scenarios for interest rates, inflation, and asset class rates of return. The scenarios were calibrated to represent our capital market assumptions in terms of expected average returns, the expected year-to-year volatility of the returns, and the expected correlation between the returns of different asset classes.

- We ran three sets of 20-year asset and liability projections:
 1. The recently adopted policy asset allocation (50% equity / 50% fixed income) with liabilities determined using the new 5.75% interest rate assumption.
 2. The recently adopted policy asset allocation with implemented de-risking strategy at 80% and 90% General Plan funded status triggers. Liabilities were determined using the interest rate associated with each asset mix (Mix 1: 5.75%, Mix 2: 5.25%, Mix 3: 5.00%).
 3. The de-risking strategy outlined above in conjunction with extra \$2 mm contributions in 2012, 2013 and 2014.

- The plan was treated as closed with all liabilities determined.

Projection Process (2)

- For purposes of determining the recommended contribution each year, we used the current actuarial methods and assumptions.
- In analyzing the results of the projections, we looked at the probable levels of annual contributions and at the plan's funded ratio as measured on a market value of assets basis.
- For this study, we assumed that the District would contribute the recommended contribution each year.
- Based on our capital market assumptions, the current policy asset mix has an expected long-term average return (arithmetic mean) of 6.5% and an expected annualized (compounded) return of 6.1% (before fees). These expected returns do not reflect any additional return and risk from active management; that is, they reflect anticipated returns and risk for a passively managed portfolio.

Summarizing the Projections

In analyzing these results, the outcomes of the 500 scenarios are ranked into percentiles that show the value above which 5%, 25%, 50%, 75%, and 95% of outcomes fall. For example, the 50th percentile represents the expected outcome or median result. One-half of the 500 scenarios had results higher than the median and one-half had results lower than the median.

The 95th percentile represents the highest 5% of all outcomes. The 5th percentile, on the other hand, marks the lowest 5% of all outcomes. We consider the 5th and 95th percentile values to represent the extreme ends of the range of likely outcomes. It should be noted that they do not represent the highest possible or lowest possible cases, but 90% of all outcomes are expected to fall within these two values.

With the 25th percentile outcome, the capital market assumptions indicate that there is a one in four chance of a result lower than this outcome. Similarly for the 75th percentile outcome, there is a one in four chance of a result higher than that outcome. Half of the outcomes will fall between the 25th and 75th percentile values.

We illustrate the results with a “floating bar chart”. A sample floating bar chart is on the next page.

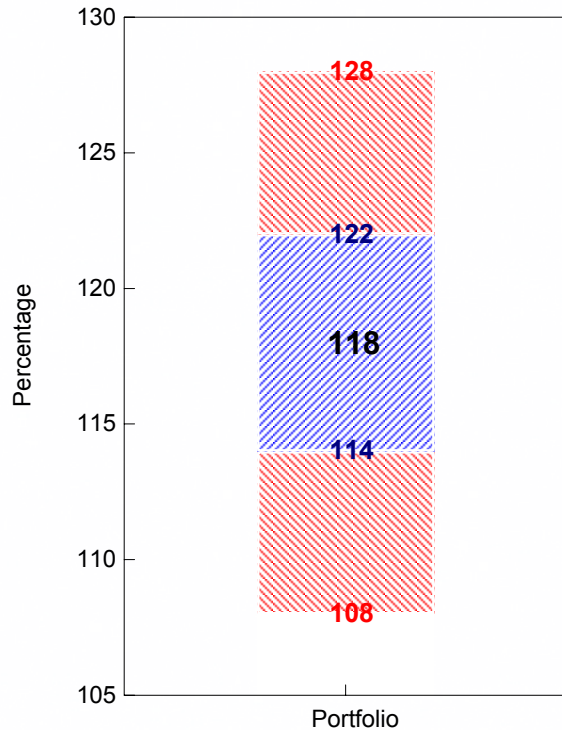
Sample Floating Bar Chart

Red Shows 5th to 95th Percentile Range

Blue Shows 25th to 75th Percentile Range

The Median Amount is Shown in Black

The results of 500 projected scenarios are sorted from highest to lowest values and summarized by percentiles:



95th Percentile
(5% of Results Fall Above this Value)

75th Percentile

50th Percentile - Most Likely Result
(Median) (50-50 Chance)

25th Percentile

5th Percentile
(5% of Results Fall Below this Value)

50% of Results Fall Between these 2 Values

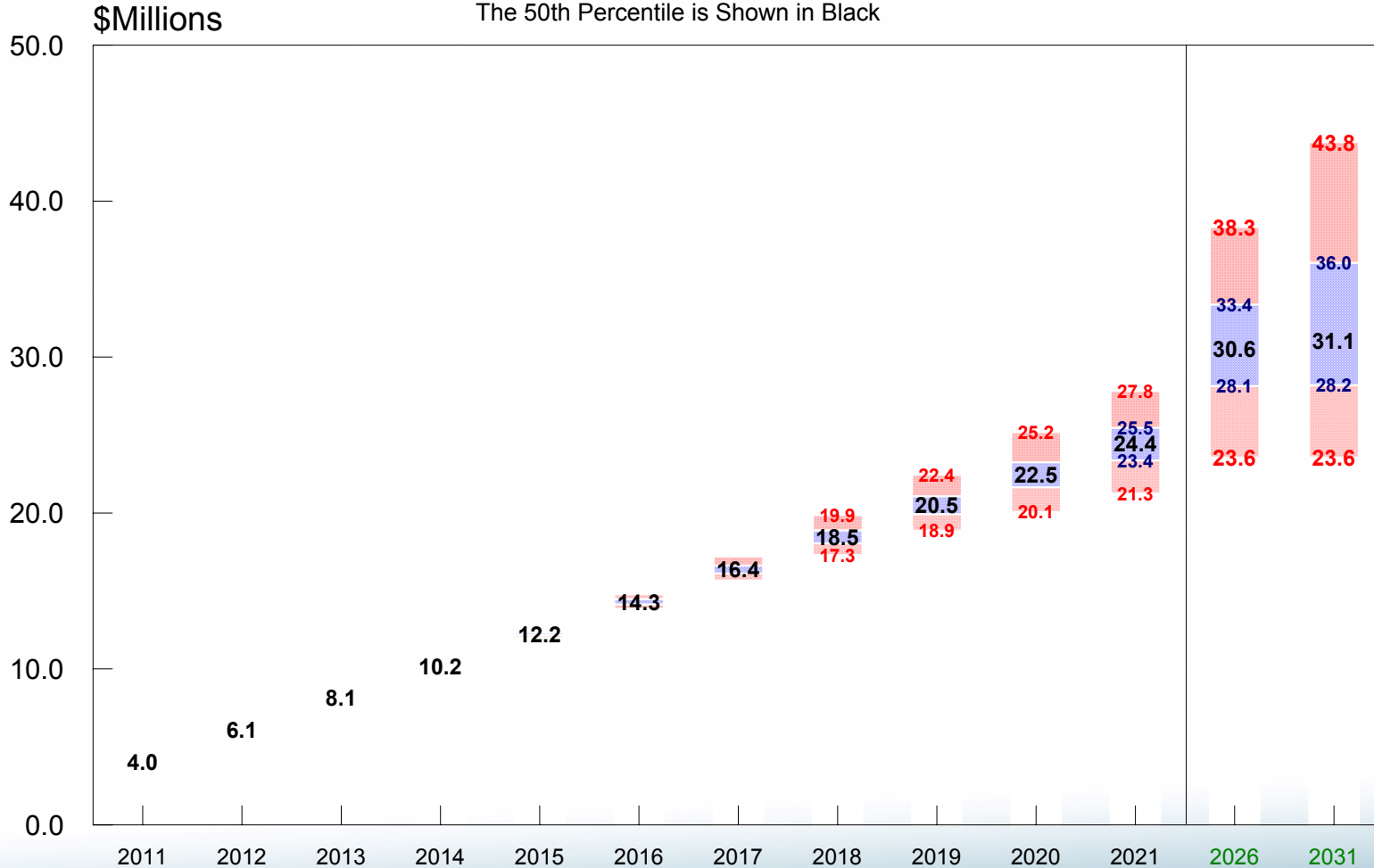
90% of Results Fall Between these 2 Values

Projections Under Baseline Scenario

ATTACHMENT A

General: Cumulative Contributions from 2011 - Baseline

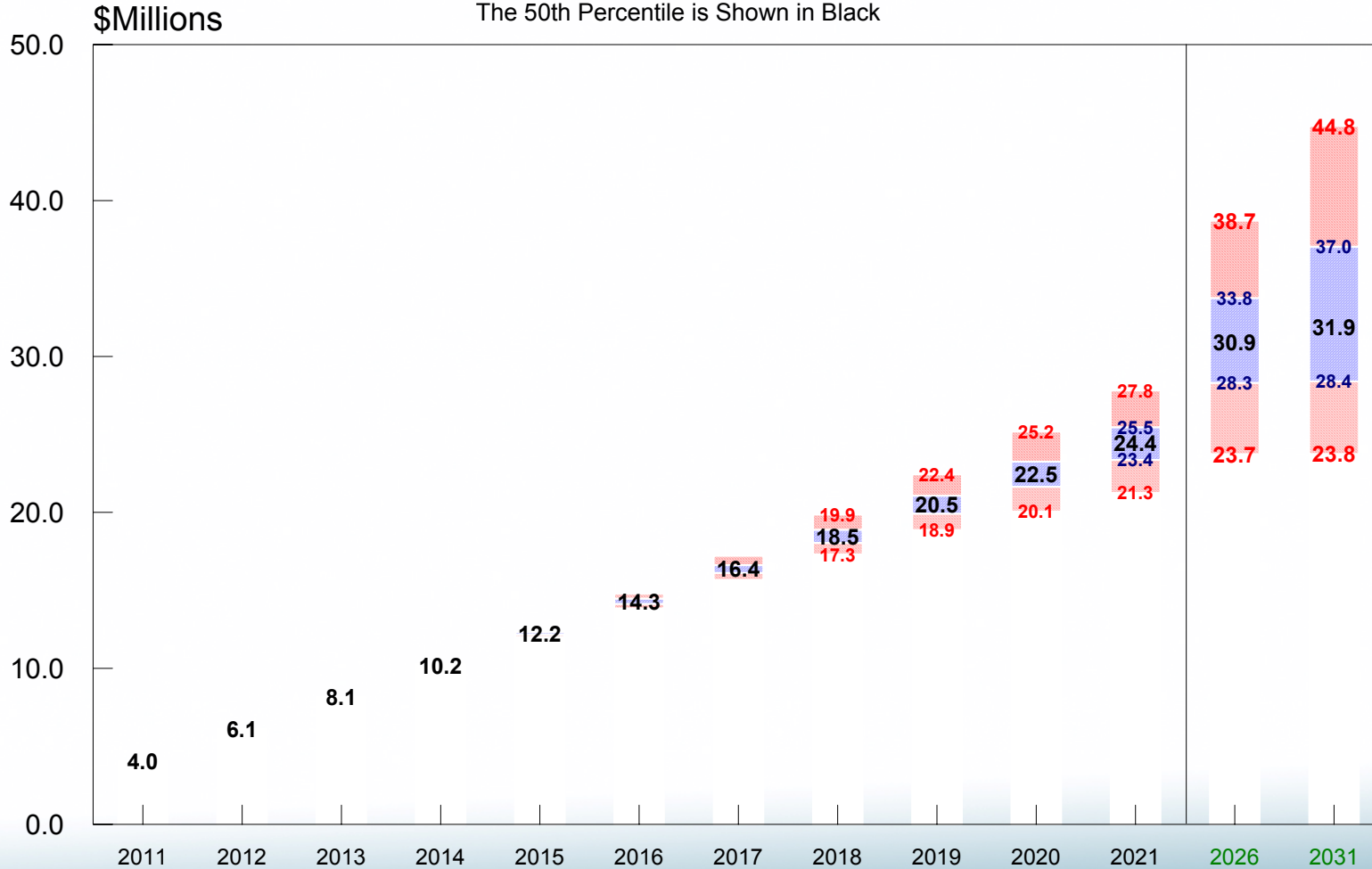
Red Shows 5th to 95th Percentile Range
 Blue Shows 25th to 75th Percentile Range
 The 50th Percentile is Shown in Black



Projections with De-Risking

General: Cumulative Contributions from 2011 - Scenario 1

Red Shows 5th to 95th Percentile Range
 Blue Shows 25th to 75th Percentile Range
 The 50th Percentile is Shown in Black

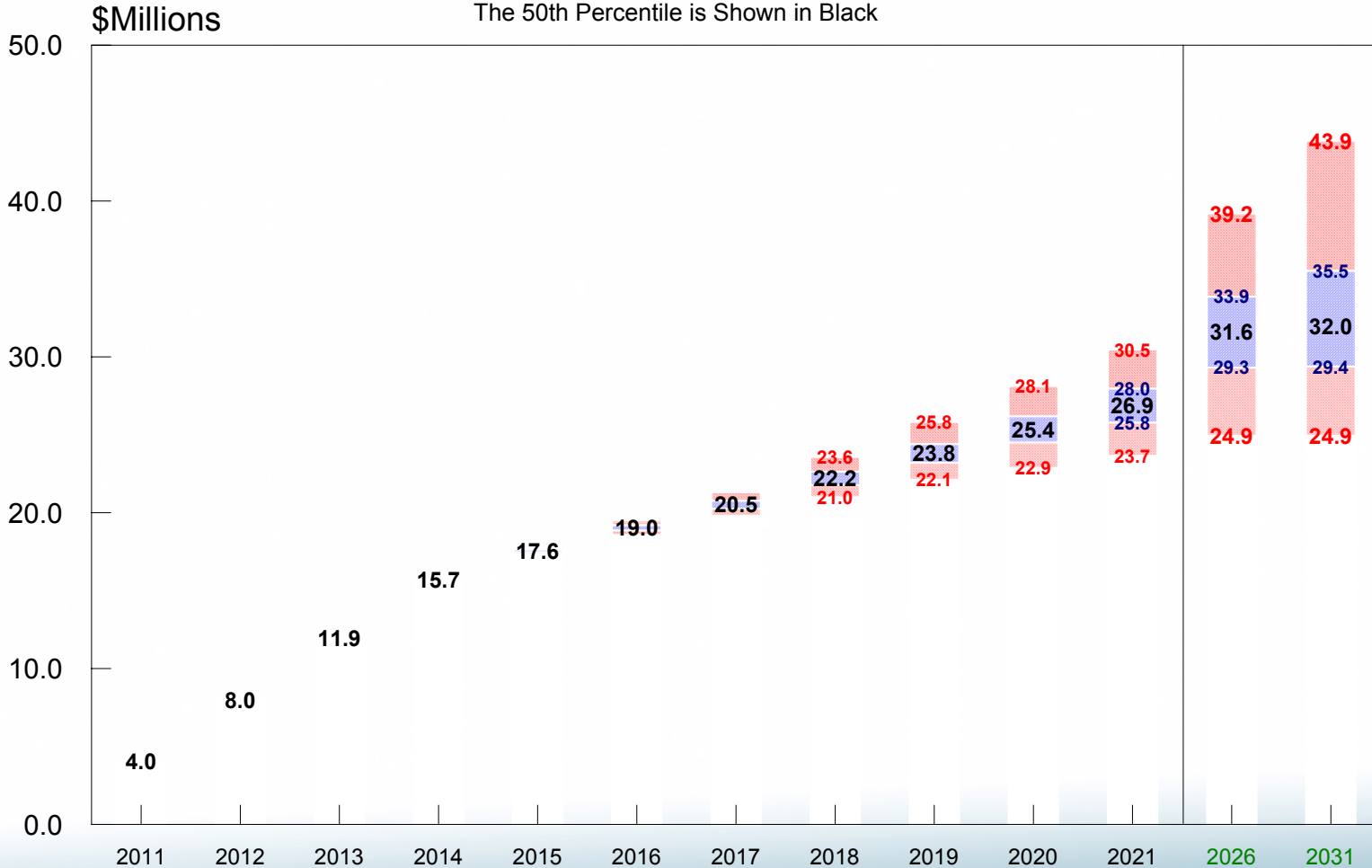


Projections with Accelerated De-Risking

ATTACHMENT A

General: Cumulative Contributions from 2011 - Scenario 2

Red Shows 5th to 95th Percentile Range
 Blue Shows 25th to 75th Percentile Range
 The 50th Percentile is Shown in Black

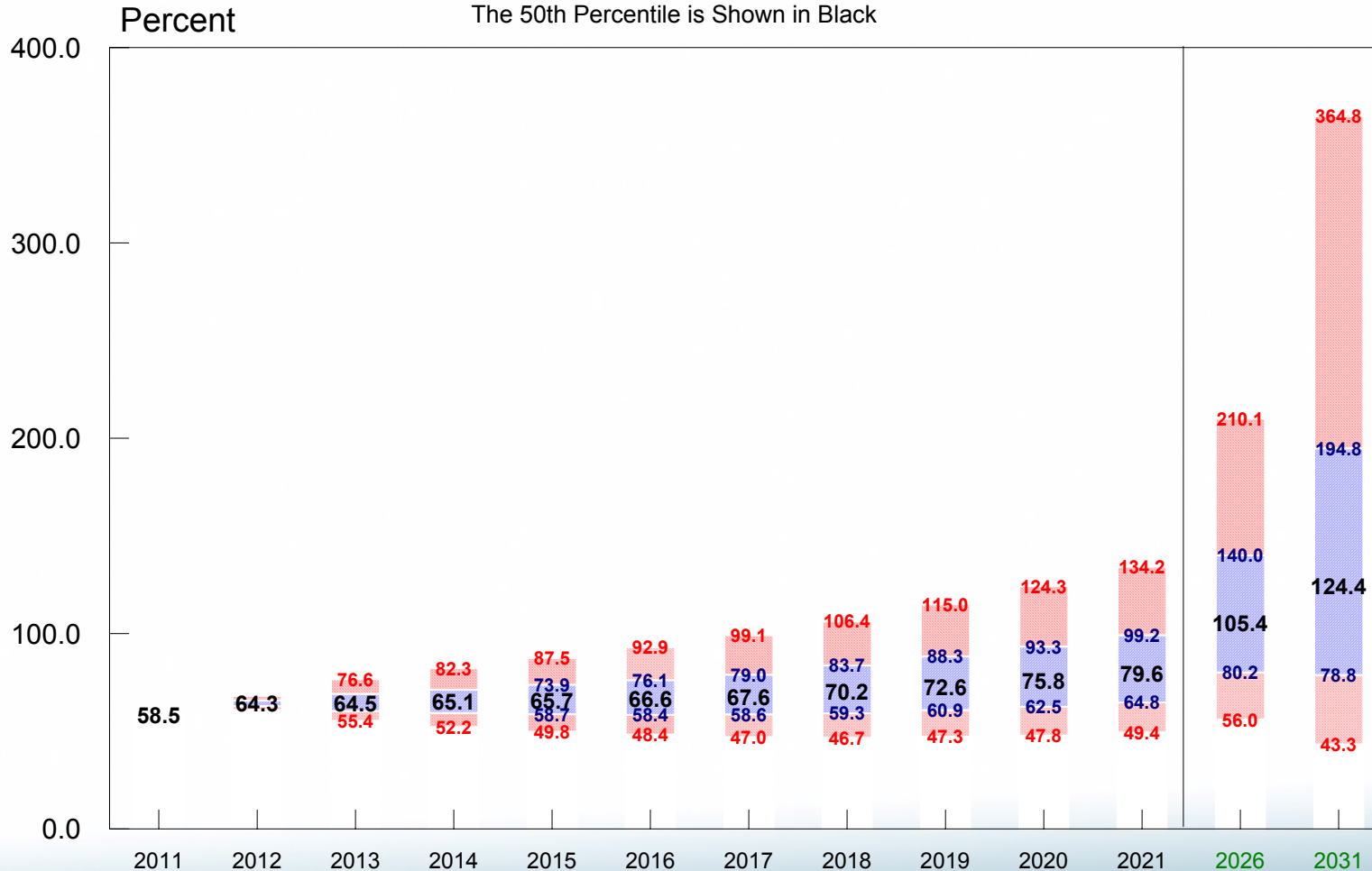


Projections Under Baseline Scenario

ATTACHMENT A

General: Funded Ratio (Market Value of Assets / Accrued Liability) - Baseline

Red Shows 5th to 95th Percentile Range
 Blue Shows 25th to 75th Percentile Range
 The 50th Percentile is Shown in Black

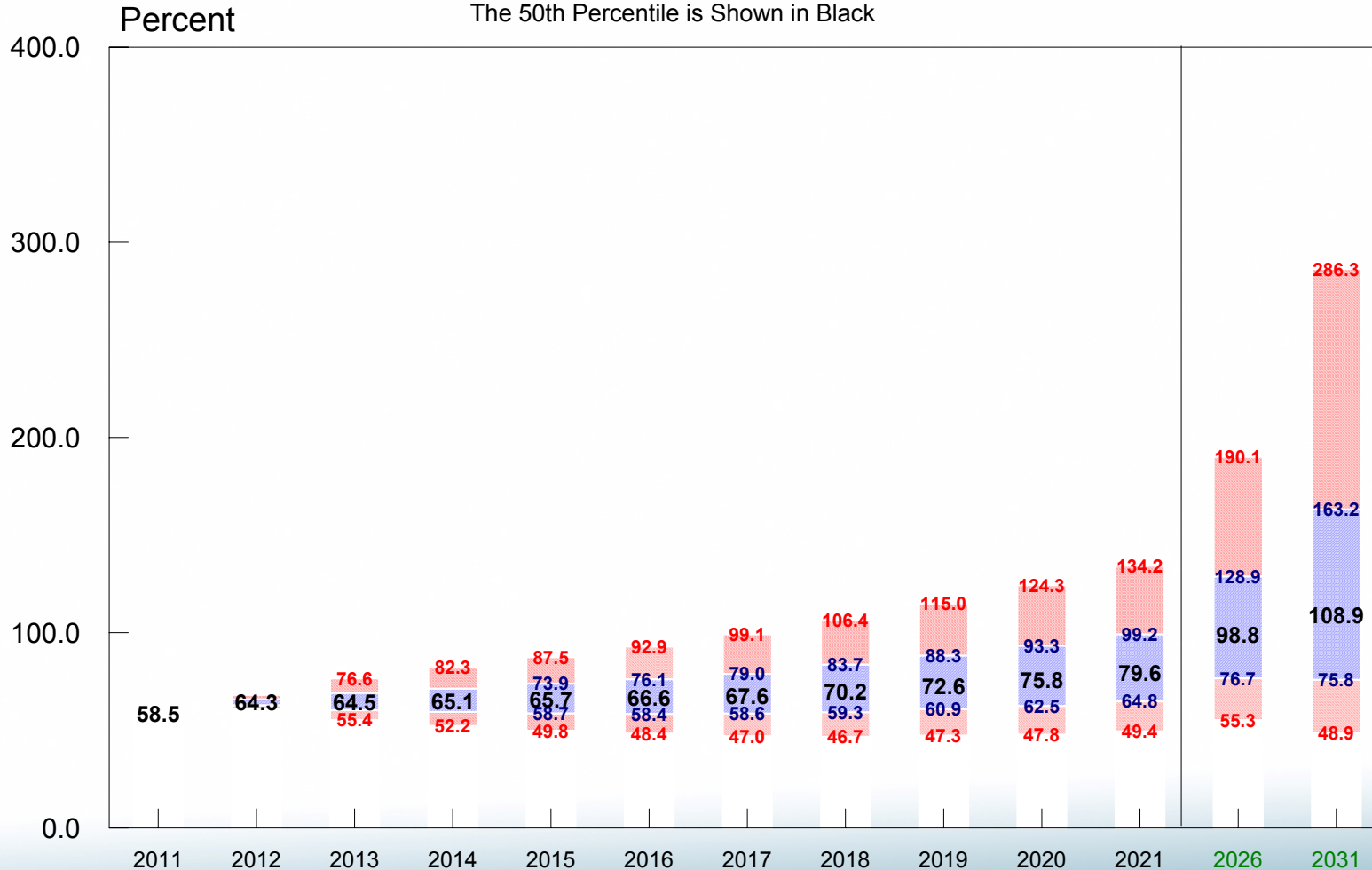


Projections with Portfolio De-Risking

ATTACHMENT A

General: Funded Ratio (Market Value of Assets / Accrued Liability) - Scenario 1

Red Shows 5th to 95th Percentile Range
 Blue Shows 25th to 75th Percentile Range
 The 50th Percentile is Shown in Black

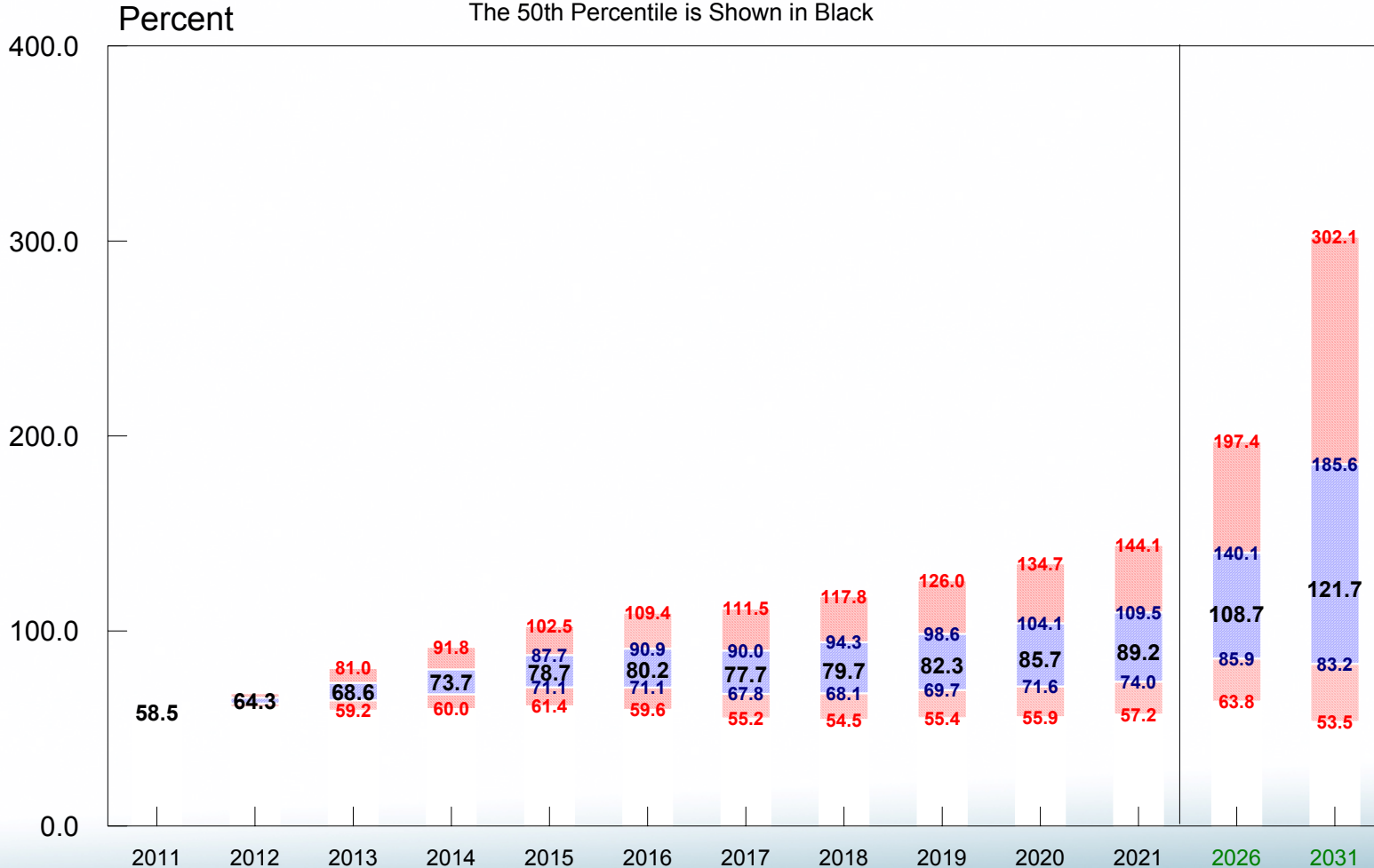


Projections with Accelerated De-Risking

ATTACHMENT A

General: Funded Ratio (Market Value of Assets / Accrued Liability) - Scenario 2

Red Shows 5th to 95th Percentile Range
 Blue Shows 25th to 75th Percentile Range
 The 50th Percentile is Shown in Black

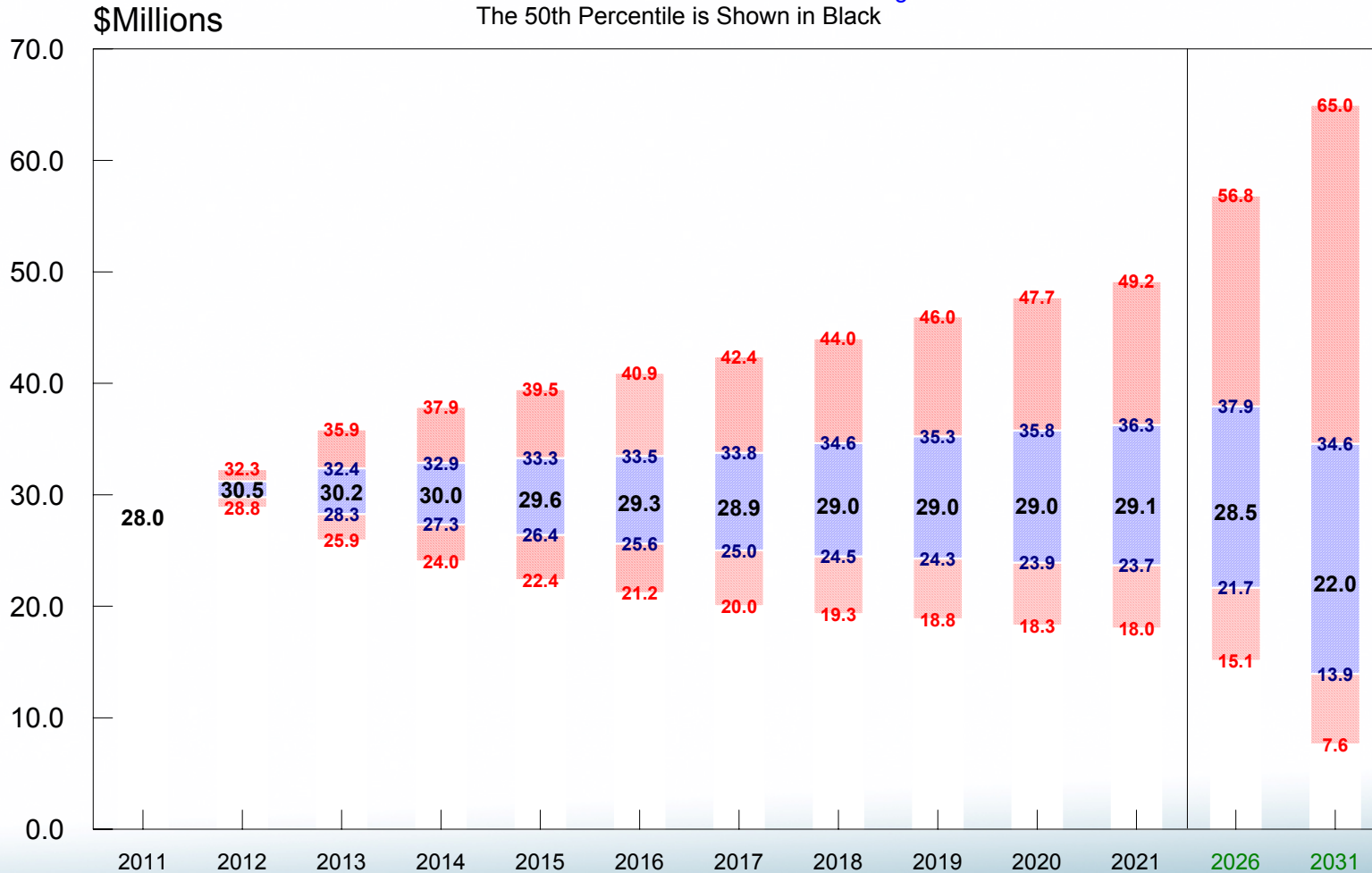


Projections Under Baseline Scenario

ATTACHMENT A

General: Market Value of Assets - Baseline

Red Shows 5th to 95th Percentile Range
 Blue Shows 25th to 75th Percentile Range
 The 50th Percentile is Shown in Black

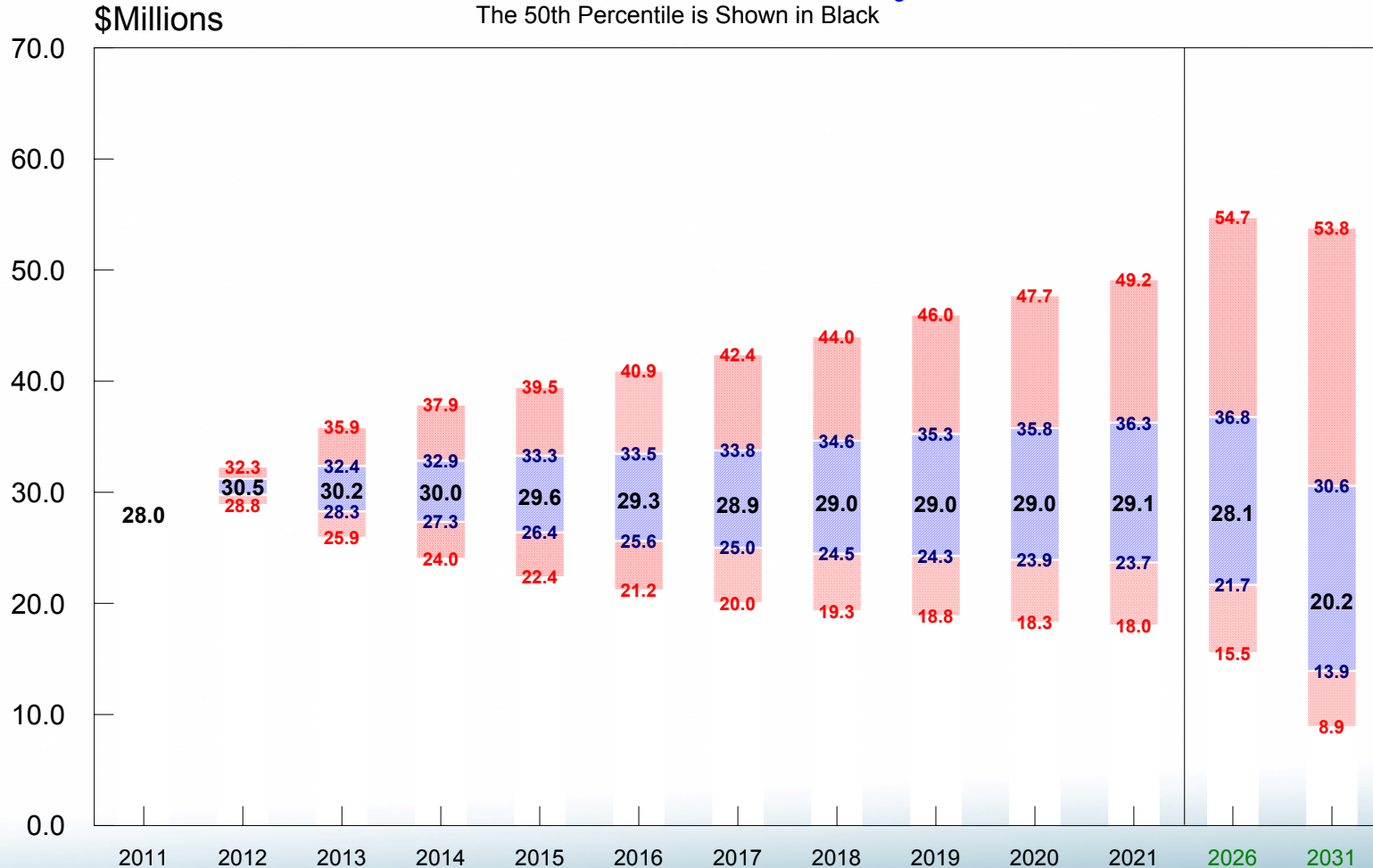


Projections with Portfolio De-Risking

ATTACHMENT A

General: Market Value of Assets - Scenario 1

Red Shows 5th to 95th Percentile Range
 Blue Shows 25th to 75th Percentile Range
 The 50th Percentile is Shown in Black

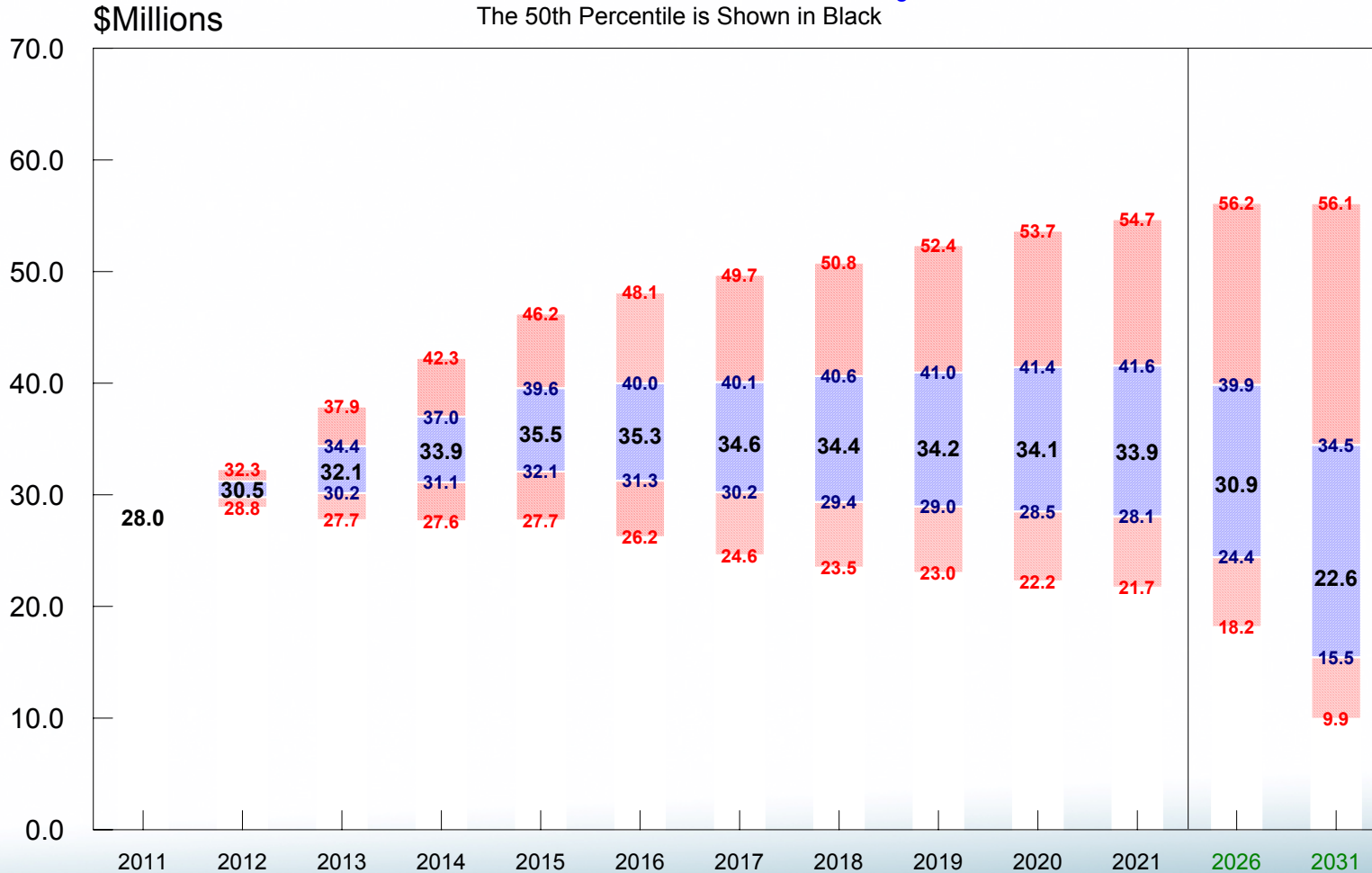


Projections with Accelerated De-Risking

ATTACHMENT A

General: Market Value of Assets - Scenario 2

Red Shows 5th to 95th Percentile Range
 Blue Shows 25th to 75th Percentile Range
 The 50th Percentile is Shown in Black

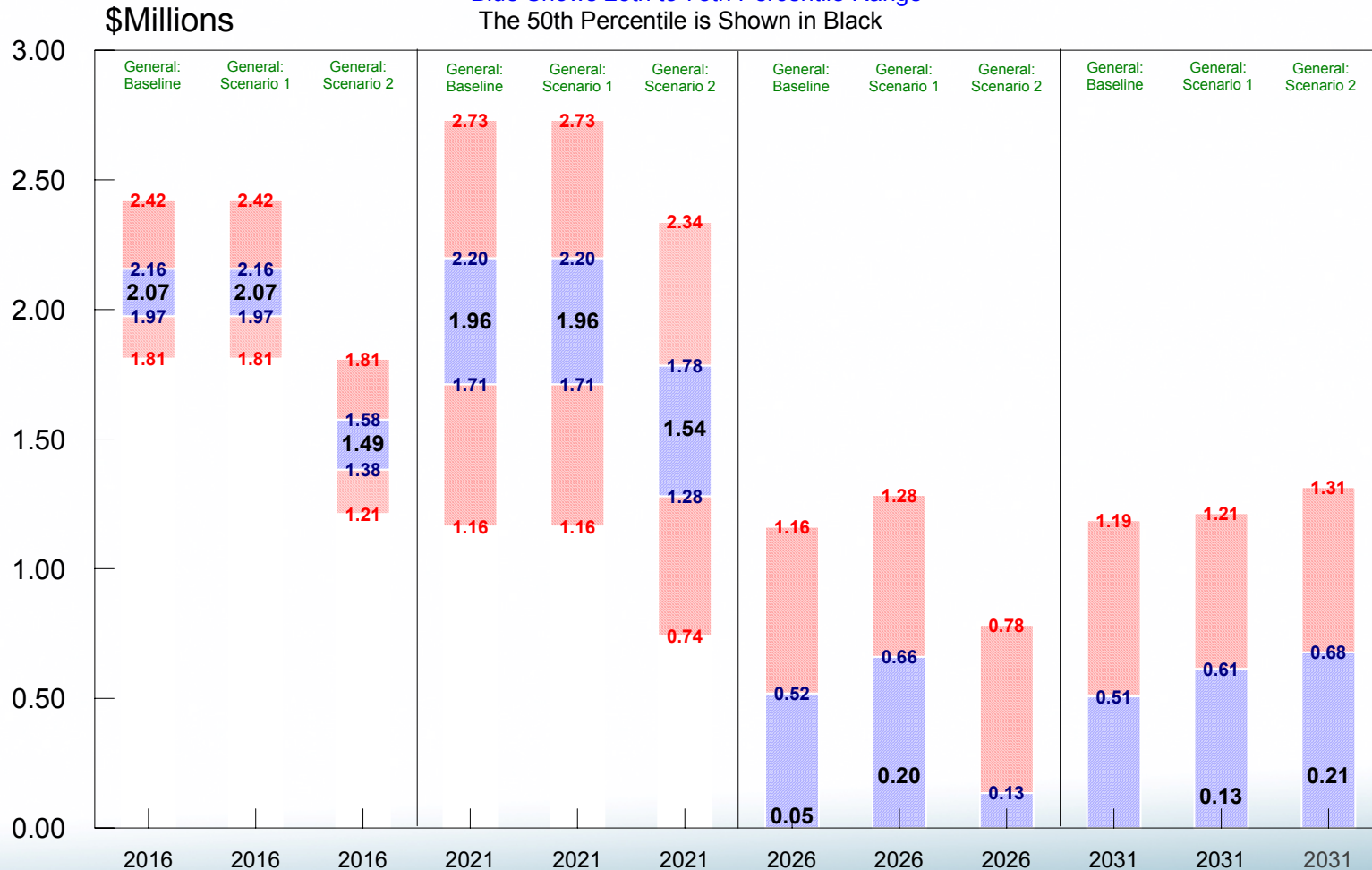


Comparison of Annual Contributions

ATTACHMENT A

General: Annual Contribution for Plan Year

Red Shows 5th to 95th Percentile Range
 Blue Shows 25th to 75th Percentile Range
 The 50th Percentile is Shown in Black

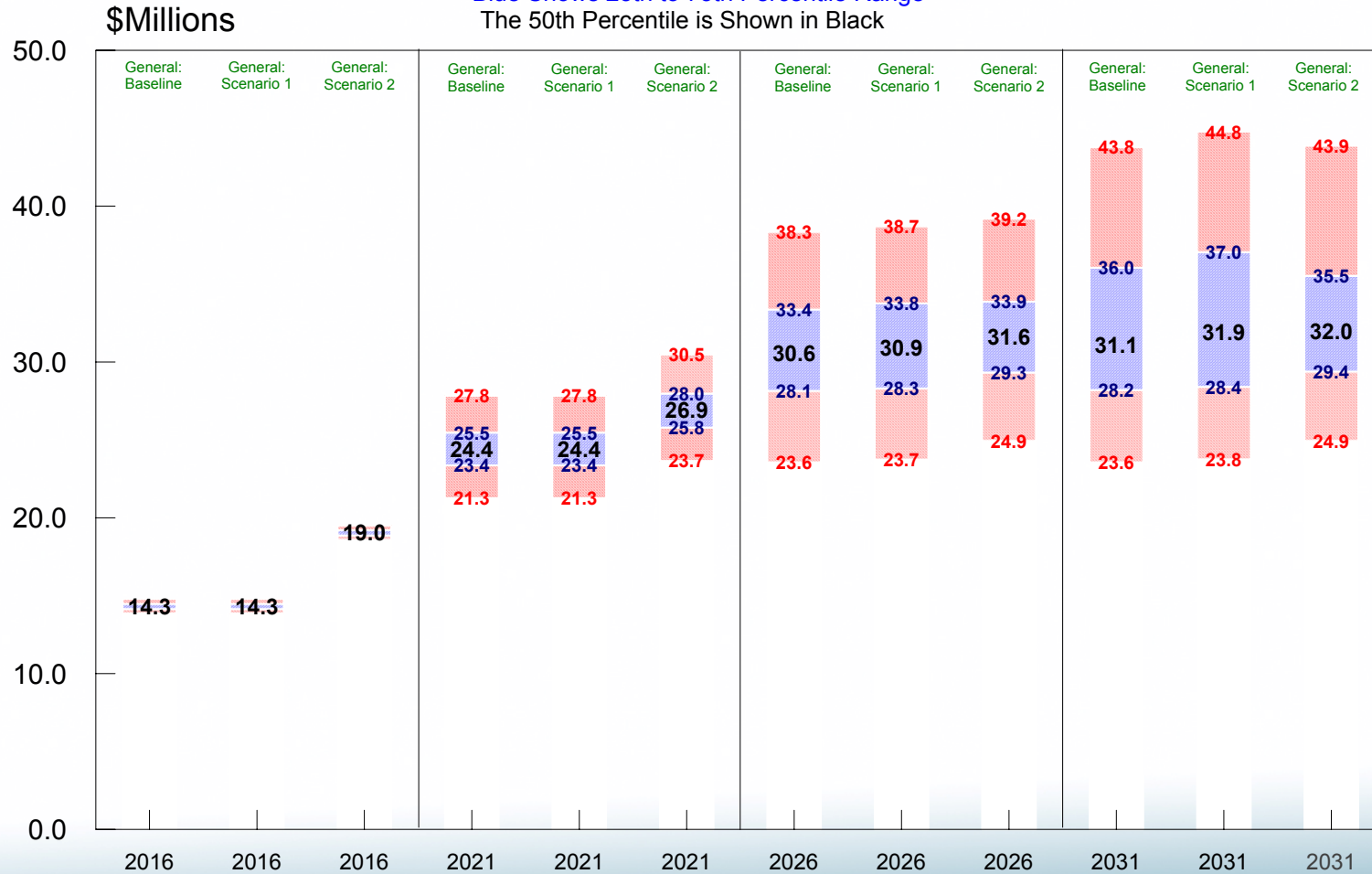


Comparison of Cumulative Contributions

ATTACHMENT A

General: Cumulative Contributions from 2011

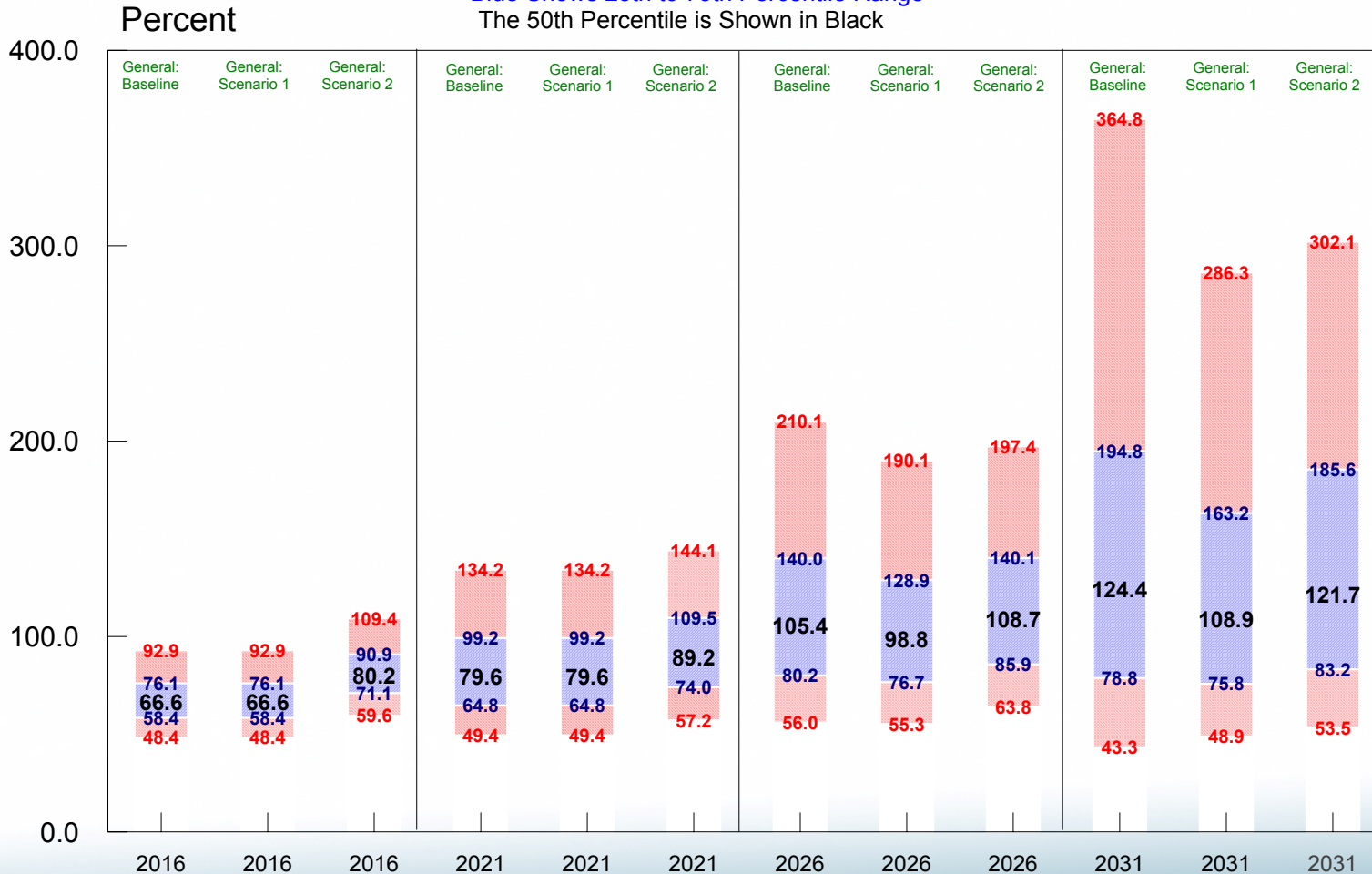
Red Shows 5th to 95th Percentile Range
 Blue Shows 25th to 75th Percentile Range
 The 50th Percentile is Shown in Black



Comparison of Funded Ratio

General: Funded Ratio (Market Value of Assets / Accrued Liability)

Red Shows 5th to 95th Percentile Range
 Blue Shows 25th to 75th Percentile Range
 The 50th Percentile is Shown in Black

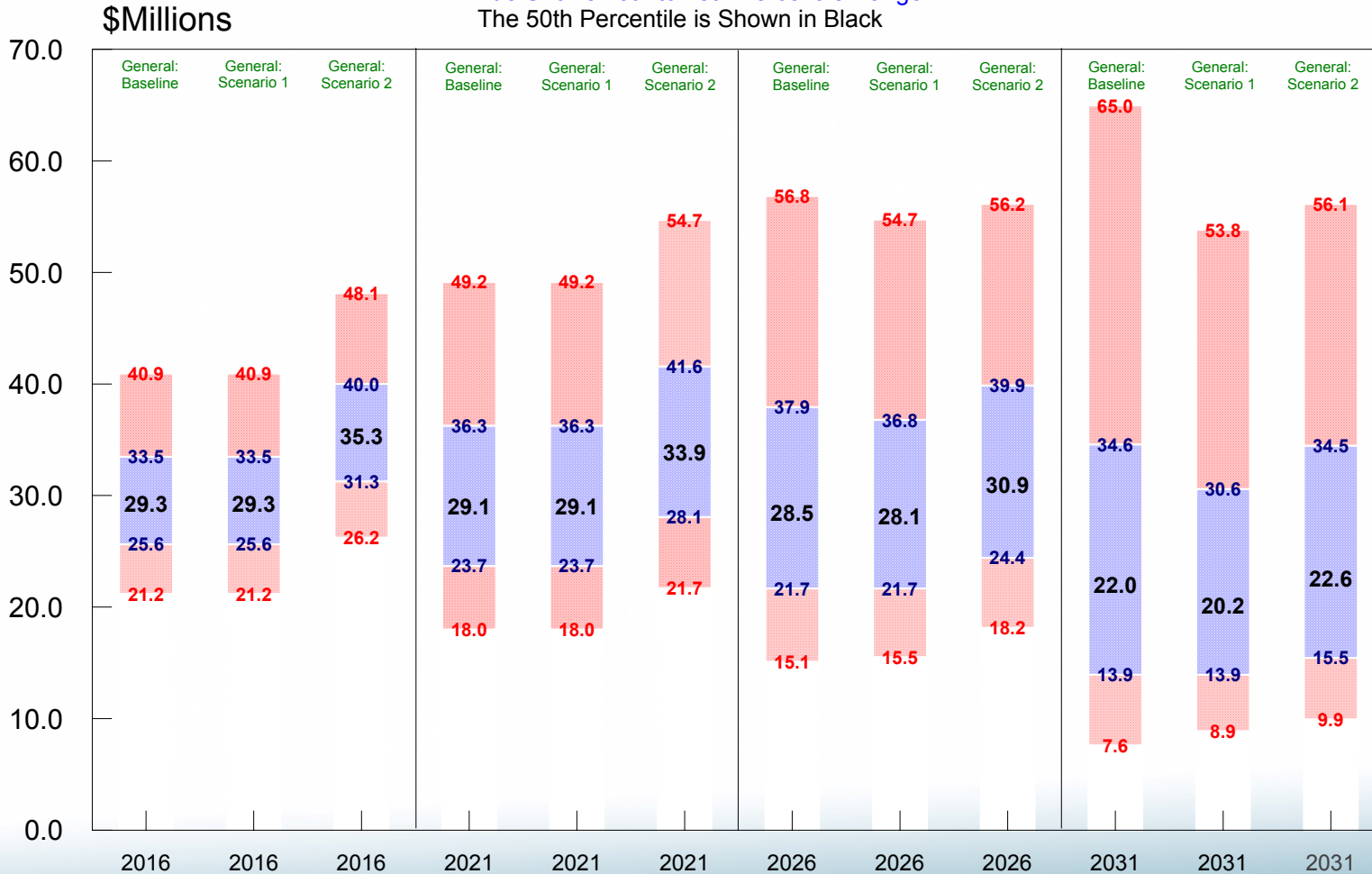


Comparison of Market Value of Assets

ATTACHMENT A

General: Market Value of Assets

Red Shows 5th to 95th Percentile Range
 Blue Shows 25th to 75th Percentile Range
 The 50th Percentile is Shown in Black



Impact on Safety Plan

ATTACHMENT A

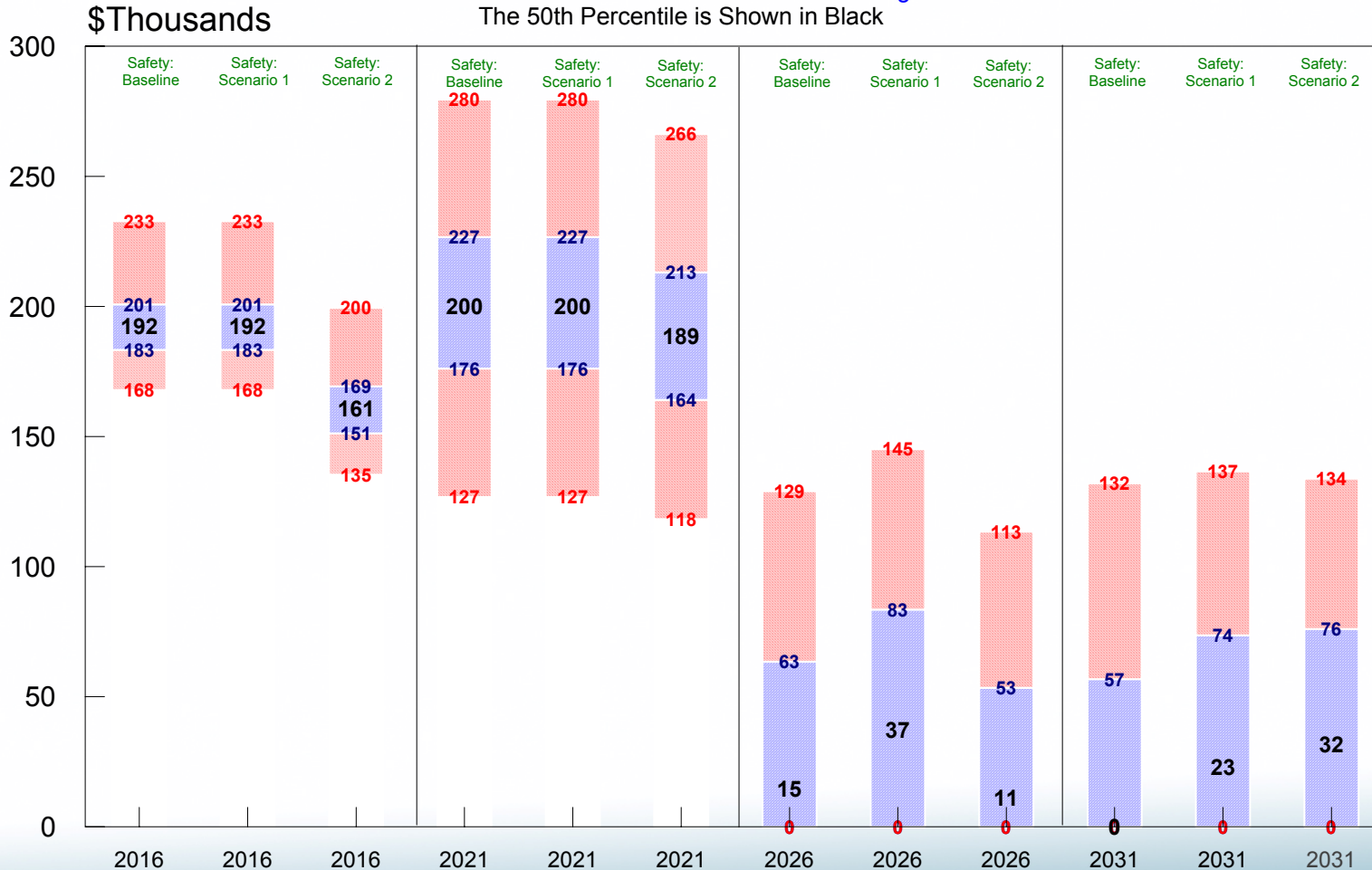
- The General Plan assets and liabilities are approximately nine times those of the Safety Plan.
- For this reason, we have focused on the funded status of the General Plan to determine our de-risking “trigger points”. This study assumes that asset mix and actuarial interest rate assumption are made to both Plans simultaneously for ease of administration.
- The Safety Plan began 2011 at 42% funded on a market value of assets basis.
- The net impact on the Safety Plan of each of the three scenarios discussed earlier in the report is shown in the following charts.
- We see similar outcomes in the Safety Plan as those examined earlier in the General Plan. De-risking does not materially increase the overall contributions of the plan or significantly extend the date by which we expect to achieve the 80% and 90% funded status goals, but it does reduce the potential range of outcomes in the future.

Comparison of Annual Contributions

ATTACHMENT A

Safety: Annual Contribution for Plan Year

Red Shows 5th to 95th Percentile Range
 Blue Shows 25th to 75th Percentile Range
 The 50th Percentile is Shown in Black



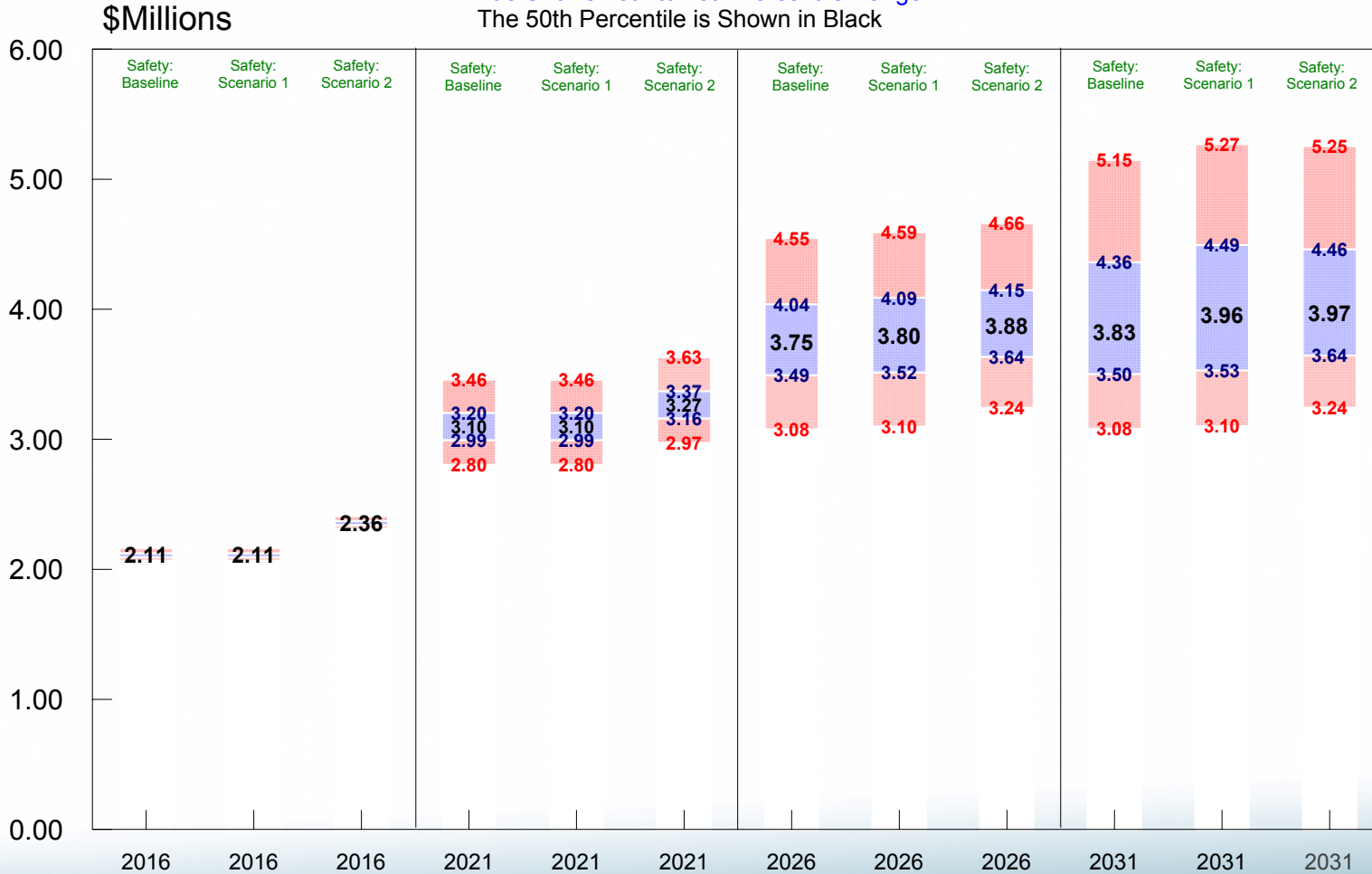
Comparison of Cumulative Contributions ATTACHMENT A

Safety: Cumulative Contributions from 2011

Red Shows 5th to 95th Percentile Range

Blue Shows 25th to 75th Percentile Range

The 50th Percentile is Shown in Black

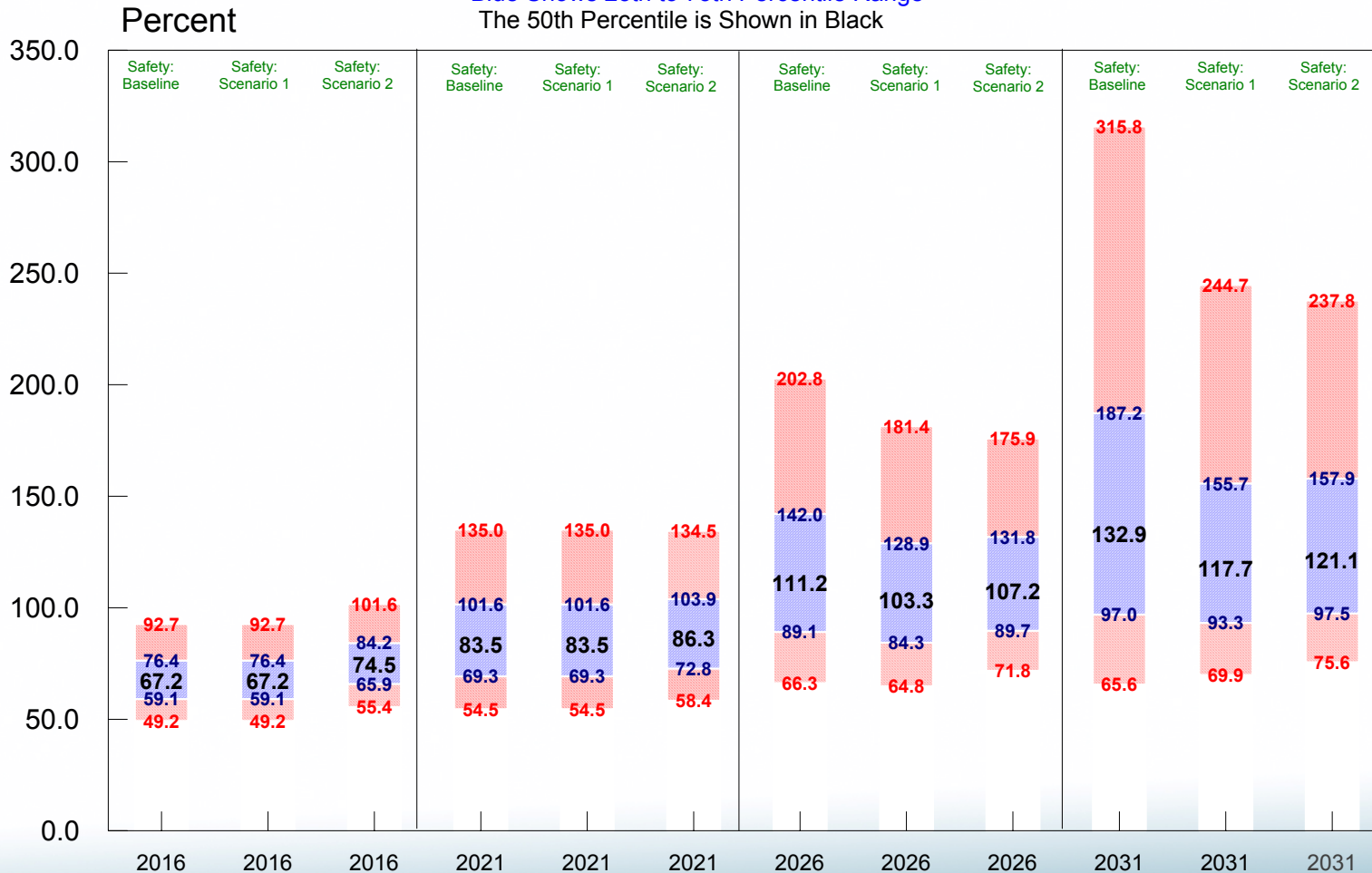


Comparison of Funded Ratio

ATTACHMENT A

Safety: Funded Ratio (Market Value of Assets / Accrued Liability)

Red Shows 5th to 95th Percentile Range
 Blue Shows 25th to 75th Percentile Range
 The 50th Percentile is Shown in Black



Comparison of Market Value of Assets

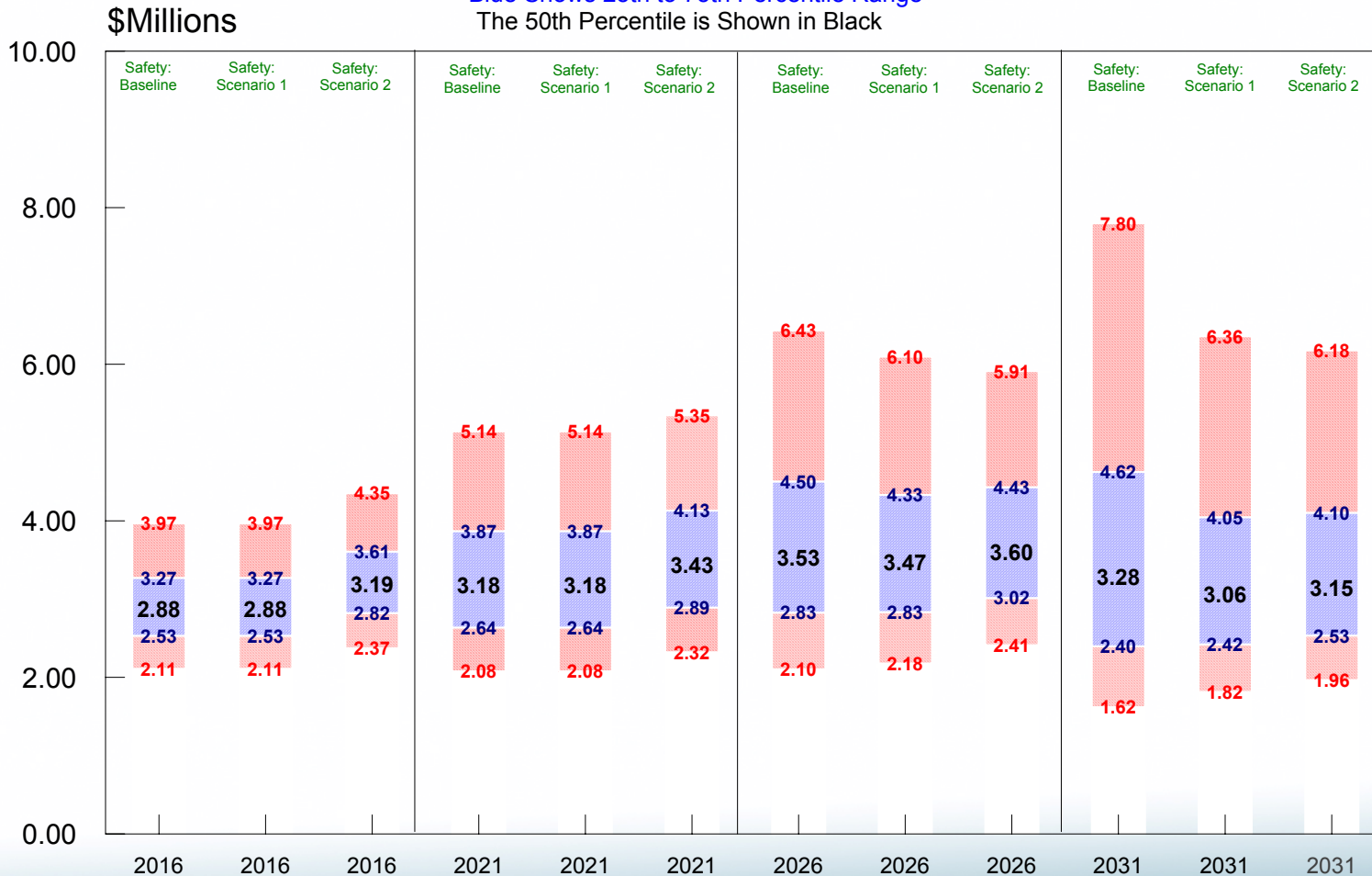
ATTACHMENT A

Safety: Market Value of Assets

Red Shows 5th to 95th Percentile Range

Blue Shows 25th to 75th Percentile Range

The 50th Percentile is Shown in Black



Appendix

ATTACHMENT A

- Glossary
- Development of Capital Market Assumptions

Active management - An investment management approach that seeks to outperform a relevant benchmark through tactical asset allocation, and/or security selection.

Alpha - For purposes of our analysis, alpha is the excess return over a specified benchmark.

Annualized return - The average (technically geometric average) return that if earned over the period covered that would produce the same total compound rate of return that the actual set of fluctuating returns produced.

Asset-liability modeling - A technique which involves making projections of the future financial position of a pension plan with regard to future assets and liabilities in order to gauge the suitability of various funding and investment policies.

Benchmark - A yardstick (e.g., S&P 500) against which the performance of a fund or manager can be compared for the purpose of determining investment success.

Beta - For purposes of our analysis, beta is the risk associated with the exposure to an asset class invested on a passive basis.

CAPM - The Capital Asset Pricing Model is an economic model for relating the prices among different asset classes by addressing the risk reward relationship between investments. It was developed by Dr. William Sharpe at Stanford in the 1960's. Dr. Sharpe was awarded the Nobel Prize in 1991 for his work on CAPM.

Correlation - The measure of how closely two series of numbers, events, patterns of returns, etc. move together. If the two patterns move together perfectly, then the correlation is 1.00. If they move completely independently, then the correlation is 0.00.

Dividend Discount Model (DDM) - A procedure for valuing the price of a stock by using predicted dividends and discounting them back to present value. If the value obtained from the DDM is higher than the present share price, the stock is considered to be undervalued.

Duration - A measure of the sensitivity of portfolio of bonds to interest rate changes. For example, if the duration of a bond is 5, then for every 1% increase in interest rates, the bond portfolio will decline in value by 5%. Conversely, if interest rates decline by 1% then the bond portfolio will increase in value by 5%.

Equity risk premium - The expected excess return of equities over the risk free rate (typically cash or a bond portfolio).

Expected return - A measure of the value of an investment, taking account of its current price and the estimated future cash flow to the investor. The higher the current price in relation to future estimated cash flow, the lower the expected return; the lower the price in relation to future cash flow, the higher the expected return.

Expected out-performance - See alpha.

Governance - The organizational structure, composition and procedures by which plan fiduciaries (or any other governing body) carries out their responsibilities.

Immunization - The process of balancing a portfolio of assets against a given set of liabilities by matching the duration of the assets to the duration of the liabilities.

Indexing - An investment management approach that seeks to replicate the performance of a specific index (e.g., S&P 500). A portfolio may be indexed either by buying every security in the index (full replication), or by buying fewer securities that accurately reflect the characteristics of the index (sampling).

Information ratio - The excess return of the portfolio relative to an appropriate benchmark divided by the standard deviation of the excess return. It is a measure of the relative rate of return per one relative unit of risk.

Liability-driven investing (LDI) - An approach that seeks to control short-term financial risks (funded status, contributions, pension expense, and balance sheet) while seeking to generate an investment return above the market-based growth rate of the liabilities to reduce the long-term cost of the plan.

Liability proxy - A simplified portfolio of a pension plan's liability that seeks to reflect the characteristics (primarily duration and term structure) of the plan's liabilities.

Long Duration - A fixed income portfolio with a duration of more than 10 years. Long duration fixed income portfolios are typically constructed to match a long-term liability stream.

Mean reversion - A theory that there exists some underlying central "correct" valuation for securities prices. From time to time prices will depart from that value, but ultimately most drift back to that central or mean level. There is no statistical evidence to support the existence of such an effect.

Optimization - Constructing a portfolio in such a way that return is maximized for a given risk level, or risk is minimized for a given expected return level.

Real return / real yield - The rate of return in excess of the inflation rate.

Risk budget - The term commonly used to describe the maximum level of risk (tracking error) that a plan sponsor is willing to take relative to the plan's liabilities.

Standard deviation - A statistical term referring to the probable spread of observations around the average or expected value. In financial contexts standard deviation is used as measure of risk. That is, as the standard deviation increases, the confidence one has in being able to predict the outcome decreases.

Strategic asset allocation - A long-term portfolio management approach that seeks to maintain a predetermined asset mix of equities and fixed income.

Stochastic - A process involving a randomly determined sequence of observations each of which is considered as a sample of one element from a probability distribution.

Surplus - For purposes of our analysis, surplus is defined as the dollar amount of plan assets over or under the Accumulated Benefit Obligation (ABO) or Projected Benefit Obligation (PBO).

Tactical asset allocation (TAA) - A short-term portfolio management approach that seeks to take advantage of undervalued or overvalued asset classes or style groups (i.e., value v. growth, US v. international, etc.) by overweighting or underweighting relative to a target allocation.

Term structure - A yield curve displaying the relationship between the interest rate of a security and their term to maturity. Term structures are continually changing and though the yield curve is normal, it can be flat or inverted.

Tracking error - A measure of the standard deviation of a portfolio's excess return relative to the performance of an appropriate benchmark.

Value at risk - A technique used to estimate the probability of portfolio losses (in dollar terms) based on statistical stress testing. That is, calculations are performed to determine how sensitive the portfolio (or funded status) is to interest rate changes and/or market corrections.

Yield curve - A graph showing the relationship between the time to maturity and the yield of a bond with that maturity.

Development of Capital Market Assumptions ATTACHMENT A

Summary

Milliman's Asset Allocation Committee develops long-term capital market assumptions at the beginning of each calendar year and reviews them quarterly using a well researched process. The committee is composed of senior research professionals and consultants who bring depth of asset class and portfolio experience to the task. The assumptions are intended to form the basis for asset allocation and asset/liability studies over a 10-year investment time horizon.

The capital market assumptions consist of expected returns, standard deviations, and correlations for traditional and alternative asset classes of interest to institutional investors. The expected return assumptions (except for private equity and hedge funds) represent nominal expected market index returns for each asset class and do not include potential excess returns from active management or any adjustments for active management fees.

Milliman uses the Global Capital Asset Pricing Model (Global CAPM) methodology to determine expected returns for each asset class, rather than relying on historical returns or other estimates. Insight and feedback from our specialty research groups further refine the return expectations. Historical estimates of volatility (standard deviation) and correlations are used in line with academic research. Milliman adjusts certain capital market assumptions to reflect changed market conditions and/or the nature of the asset class.

The final step in the capital market assumption projection process involves testing expected returns, risk, and correlations for reasonableness to ensure that resulting portfolios reflect equilibrium assumptions. Unconstrained efficient frontiers are run at various levels of detail and are subjected to careful examination. On the basis of this analysis, Milliman may then fine-tune assumptions until reasonable portfolios are produced that improve the integrity of the projection process.

Development of Capital Market Assumptions (2) ATTACHMENT A

Development of Asset Class Assumptions

Asset class assumptions required as inputs to asset allocation and asset-liability studies include:

- Expected returns
- Standard deviation (a measure of variability)
- Correlation among the asset classes

Expected Returns

Expected returns are the most important input affecting the portfolio optimizer's choice of assets for optimal portfolios. The Global CAPM model requires estimates of the risk-free rate and the excess return of the global market portfolio over the risk-free rate. We estimate these two parameters by independently estimating returns for two key asset classes: U.S. large cap equity and U.S. core fixed income. We then solve for the risk-free rate and market excess return forecasts that, when used as inputs to the CAPM, generate expected returns for U.S. large cap equity and U.S. core fixed income that match our independent forecasts.

U.S. Stocks. To forecast the expected return on U.S. large cap equity, we use the S&P 500 Index and the Dividend Discount Model. According to this model, the expected long-term annualized return on the equity market is the sum of expected long-term inflation, the current dividend yield (based on next year's expected dividend), and the expected long-term real growth rate in dividends.

Our 10-year assumption for the annualized rate of inflation is 2.75%. We develop this assumption by looking at the difference between yields on nominal Treasury bonds and inflation-indexed Treasury bonds (so called "breakeven inflation"). We also consider published surveys of economists' forecasts for average price inflation over the next 10 years (December 2010 Blue Chip Financial Forecasts¹ and the 4th Quarter 2010 Survey of Professional Forecasters²).

Development of Capital Market Assumptions (3) ATTACHMENT A

While the consensus forecasts from the surveys have not changed much since June 2010 and predict average inflation of about 2.20% to 2.30% over the next 10 years, the 10-year breakeven inflation rate extracted from the Treasury market moved upward since June 2010, from about 2.00% at June 30 to about 2.45% at the end of 2010. We believe that there is a “bubble” in the Treasury bond market due the continuing high volatility in global markets. We believe that the extremely low yields are distorting breakeven inflation, leading to a downward biased measure of expected inflation.

The trailing dividend yield on the S&P 500 Index was 1.90% at the end of December 2010. We expect the real growth rate in dividends to match the real growth in corporate earnings which, in turn, should closely track, but not exceed, the real growth rate in GDP. The December 2010 issue of Blue Chip Financial Forecasts reports a consensus forecast for average U.S. real GDP growth of 2.80% over the next 10 years. We use 2.60% as our forecast for the growth in real earnings and dividends. Therefore, the current dividend yield based on next year's expected dividend is 1.95% ($1.90\% \times 1.026 = 1.95\%$). Adding the dividend growth rate to the yield gives us an expected real return of 4.55% ($1.95\% + 2.60\% = 4.55\%$). Finally, we add (using geometric addition) expected inflation of 2.75% per year to adjust the real return to a nominal return. This leads to the expected annualized return for large cap equity of 7.42%.

$$(1 + 4.55\%) \times (1 + 2.75\%) - 1 = 7.42\%$$

We round this result to 7.50%. We then compare the result from the Dividend Discount Model above with results developed from two other equity return forecasting models – the Smoothed Earnings Yield Model and the Equity Risk Premium Model³.

Development of Capital Market Assumptions (4)

ATTACHMENT A

U.S. Bonds. We assume that the yield to maturity of each U.S. fixed income asset class (except high yield) will move over the next five years from its current level to an expected level. The expected level is equal to the forecasted yield of the 10-year Treasury bond in 5 years based on consensus forecasts (5.10%) plus the asset class's average historical yield spread to the 10-year Treasury bond (0.44% since 1990). Expected 10-year returns reflect the impact of this yield movement.

The yield to maturity of the Barclays Capital Aggregate Bond Index was 2.97% at the end of December 2010. Applying this process leads to an expected annualized yield of 5.54% in 5 years and an annualized return of 3.50% over the 10-year period.

Other Asset Classes. A Global CAPM process is used to reverse engineer expected returns of the various other asset classes. Expected returns are proportional to their systematic risk (beta) relative to this global portfolio, defined as the estimate of the market capitalization of all investable assets. Milliman uses the global portfolio developed by UBS Global Asset Management. Current weights are shown below.

The returns of market indices representing each of the asset classes are weighted by their current weights to create a global portfolio return series. Regression of each individual asset class return against the global portfolio return produces a beta for each asset class. Beta is the measure of sensitivity of the asset class return to changes in the global portfolio return (technically the slope of the regression line) and reflects the systematic risk of that asset class.

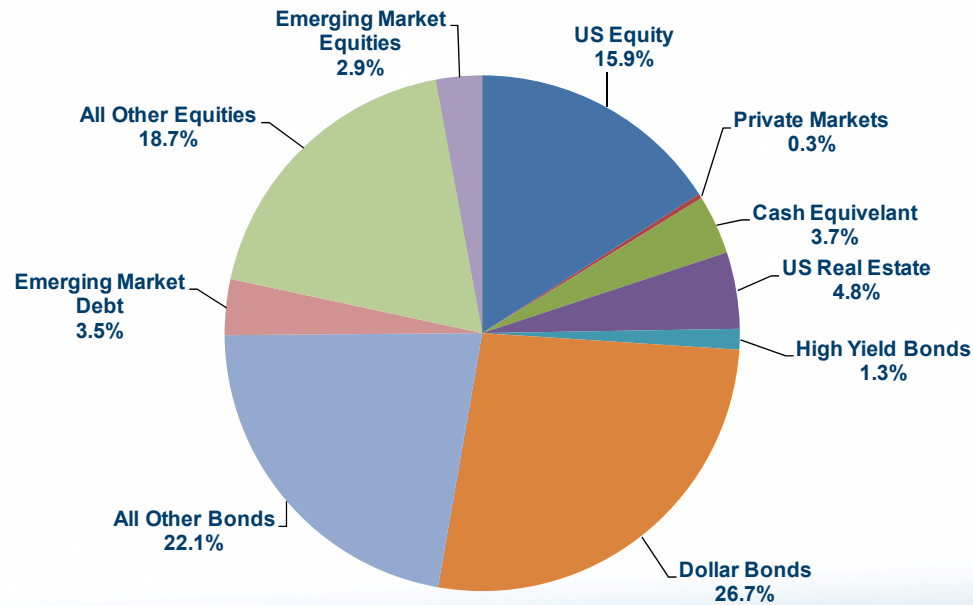
Assumptions for assets that are not included in the global portfolio and/or those that are privately valued are adjusted through either their standard deviations or their betas (systematic risk), which serves to increase their risk premia. For private investments and strategies such as hedge funds, alpha has been added to reflect investor expectations.

Development of Capital Market Assumptions (5) ATTACHMENT A

Standard Deviations and Correlations

Standard deviations and correlations are based on quarterly historical data from 1990 through 2010. Standard deviations have been adjusted to reflect projected market conditions. Results from quarterly calculations are converted to annualized standard deviations using an estimation method.

Global Investable Portfolio \$114 Trillion
As of 12/31/2010



Source: UBS Global Asset Management

Development of Capital Market Assumptions (6) ATTACHMENT A

Footnotes

¹The Blue Chip Financial Forecasts is published monthly by Aspen Publishers and includes forecasts from approximately 45 professional economists on interest rates, inflation, and economic output.

²The Survey of Professional Forecasters is published quarterly by the Federal Reserve Bank of Philadelphia and includes forecasts from approximately 35 professional economists on interest rates, inflation, and economic output.

³The Smoothed Earnings Yield Model, developed by Yale professor Robert Shiller, suggests that the long-term real return on the equity market will be close to the ratio of smoothed earnings (the inflation-adjusted average earnings over the previous 10 years) to the current inflation-adjusted price. This model suggests that the expected real long-term return on the S&P 500 Index will be approximately 4.91%. Combining this geometrically with expected inflation of 2.75% leads to an expected annualized return of 7.79%.

The Equity Risk Premium Model suggests that the return on the equity market will be close to the current yield on long Treasury bonds plus a risk premium demanded by equity investors. The yield to maturity on 20-year Treasury bonds was 4.19% at the end of December 2010. Combining this geometrically with an adjusted measure of the historical equity risk premium developed by Dimson, Staunton, and Marsh (2.40%) produces an expected annualized return of 6.69

Although these two models produce different expected equity market returns at the end of 2010, we believe that they are equally relevant and give them equal weight in terms of predicting equity returns. The average of the two forecasts is 7.24% which is close to the 7.50% developed with the Dividend Discount Model.

Development of Capital Market Assumptions (7) ATTACHMENT A

Milliman 10-Year Investment Assumptions As of January 1, 2011

Asset Class / Strategy	Representative Index	Expected 10-Year Geometric Mean	Expected Annual Arithmetic Mean	Expected Annual Standard Deviation	Correlation:																				
					1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	
1 U.S. Inflation	CPI-U	2.75%	2.75%	1.75%	1.00	0.19	-0.27	-0.40	-0.26	0.17	0.20	0.02	0.01	0.02	0.03	0.00	-0.02	0.06	0.07	0.08	0.09	0.47	0.28	0.22	
<u>Fixed Income</u>																									
2 T-Bills	BofA ML 3-Mon Tbill	3.00%	3.00%	1.15%	0.19	1.00	0.21	0.06	0.23	0.06	-0.13	-0.02	0.07	0.05	-0.06	-0.14	-0.12	-0.17	-0.14	0.10	0.15	0.05	0.14	0.18	
3 Core Fixed	BC Aggregate	3.50%	3.60%	4.45%	-0.27	0.21	1.00	0.93	0.98	0.61	0.09	0.16	-0.05	-0.05	-0.13	-0.07	-0.04	-0.23	0.09	0.09	-0.10	-0.10	-0.15	-0.08	
4 Long Bonds	BC LT Gvt/Credit	4.50%	4.85%	9.05%	-0.40	0.06	0.93	1.00	0.89	0.53	0.07	0.16	-0.02	-0.02	-0.07	-0.01	0.02	-0.19	0.10	0.11	-0.05	-0.14	-0.16	-0.08	
5 Intermediate Bonds	BC IT Gvt/Credit	3.10%	3.15%	4.00%	-0.26	0.23	0.98	0.89	1.00	0.63	0.05	0.12	-0.11	-0.12	-0.20	-0.11	-0.08	-0.24	0.05	0.04	-0.16	-0.07	-0.16	-0.11	
6 Inflation-Indexed Bonds	BofA ML U.S. TIPs	3.75%	3.85%	4.45%	0.17	0.06	0.61	0.53	0.63	1.00	0.07	0.16	-0.22	-0.21	-0.21	-0.14	-0.15	-0.11	0.04	0.02	-0.10	0.22	0.01	-0.02	
7 High Yield	BofA ML High Yield	7.00%	7.55%	11.35%	0.20	-0.13	0.09	0.07	0.05	0.07	1.00	0.49	0.68	0.69	0.67	0.63	0.60	0.64	0.63	0.13	0.45	0.28	0.46	0.45	
8 Emerg Mkt Bonds	JPM EMB+	6.25%	7.30%	16.05%	0.02	-0.02	0.16	0.16	0.12	0.16	0.49	1.00	0.52	0.53	0.53	0.46	0.42	0.60	0.52	0.28	0.47	0.32	0.60	0.64	
<u>Equity</u>																									
9 US Large Caps	S&P 500	7.50%	8.80%	18.00%	0.01	0.07	-0.05	-0.02	-0.11	-0.22	0.68	0.52	1.00	1.00	0.88	0.84	0.84	0.68	0.68	0.35	0.78	0.20	0.56	0.61	
10 US Equity Market	Russell 3000	7.60%	9.00%	18.60%	0.02	0.05	-0.05	-0.02	-0.12	-0.21	0.69	0.53	1.00	1.00	0.91	0.85	0.84	0.70	0.69	0.34	0.79	0.20	0.58	0.64	
11 US Small Caps	Russell 2000	7.75%	9.90%	23.25%	0.03	-0.06	-0.13	-0.07	-0.20	-0.21	0.67	0.53	0.88	0.91	1.00	0.77	0.75	0.74	0.70	0.28	0.69	0.11	0.56	0.63	
12 Non-US Equity	MSCI AC xUS	7.90%	9.80%	21.80%	0.00	-0.14	-0.07	-0.01	-0.11	-0.14	0.63	0.46	0.84	0.85	0.77	1.00	0.99	0.76	0.80	0.34	0.72	0.34	0.57	0.56	
13 Foreign Developed Equity	MSCI EAFE	7.50%	9.35%	21.50%	-0.02	-0.12	-0.04	0.02	-0.08	-0.15	0.60	0.42	0.84	0.84	0.75	0.99	1.00	0.69	0.78	0.36	0.71	0.32	0.52	0.52	
14 Emerging Markets Equity	MSCI Emerging Mkts	8.00%	11.60%	30.65%	0.06	-0.17	-0.23	-0.19	-0.24	-0.11	0.64	0.60	0.68	0.70	0.74	0.76	0.69	1.00	0.67	0.14	0.58	0.26	0.68	0.65	
<u>Alternatives</u>																									
15 Global REITs	FTSE EPRA/NAREIT Devel	7.00%	9.25%	23.65%	0.07	-0.14	0.09	0.10	0.05	0.04	0.63	0.52	0.68	0.69	0.70	0.80	0.78	0.67	1.00	0.33	0.53	0.34	0.48	0.46	
16 Property	NCREIF/MIT TBI	7.00%	7.60%	12.05%	0.08	0.10	0.09	0.11	0.04	0.02	0.13	0.28	0.35	0.34	0.28	0.34	0.36	0.14	0.33	1.00	0.45	0.16	0.29	0.27	
17 Private Equity	Venture Economics All PE	8.50%	11.95%	30.00%	0.09	0.15	-0.10	-0.05	-0.16	-0.10	0.45	0.47	0.78	0.79	0.69	0.72	0.71	0.58	0.53	0.45	1.00	0.30	0.68	0.70	
18 Commodities	DJ UBS	6.50%	8.40%	21.75%	0.47	0.05	-0.10	-0.14	-0.07	0.22	0.28	0.32	0.20	0.20	0.11	0.34	0.32	0.26	0.34	0.16	0.30	1.00	0.49	0.37	
19 Hedge FOF	HFRI FOF Diversified	6.35%	6.60%	7.35%	0.28	0.14	-0.15	-0.16	-0.16	0.01	0.46	0.60	0.56	0.58	0.56	0.57	0.52	0.68	0.48	0.29	0.68	0.49	1.00	0.93	
20 Hedge FOF	HFRI FOF Strategic	7.65%	8.10%	10.35%	0.22	0.18	-0.08	-0.08	-0.11	-0.02	0.45	0.64	0.61	0.64	0.63	0.56	0.52	0.65	0.46	0.27	0.70	0.37	0.93	1.00	

Limitations

ATTACHMENT A

The outcomes from the projections in this report are dependent on the assumptions used. Differences between our projections and actual amounts depend on the extent to which future experience conforms to the assumptions made for this analysis. It is certain that actual experience will not conform exactly to the assumptions to be used in this analysis. Simulated investment performance results do not reflect actual trading and have certain inherent limitations. The actual financial results for the Plans in future years may not be included among the outcomes presented in this report. Actual amounts will differ from projected amounts to the extent that actual experience is better or worse than expected.

In preparing these projections we relied on the membership data and financial and actuarial information provided by the District and their actuary. We did not audit this data. Since the results are based on the integrity of the data supplied, the results of our projections can be expected to differ if the underlying data was incomplete or inaccurate.

This work product was prepared solely for the East Bay Regional Park District for the purposes described herein and may not be appropriate to use for other purposes. Milliman does not intend to benefit and assume no duty or liability to other parties who receive this work.

ATTACHMENT B

STATEMENT OF INVESTMENT POLICY
FOR THE EAST BAY REGIONAL PARK DISTRICT RETIREMENT PLANS
October, 2011~~March, 2009~~ Revision

1. GENERAL PROVISIONS AND PURPOSE OF POLICY

- 1.1 Introduction. The East Bay Regional Park District does (the District) hereby establish the following Statement of Investment Policies and Guidelines (the Policy) for the investment of the trust fund of the Retirement Plans. The District reserves the right at any time and from time to time to amend, supplement or rescind this Policy.
- 1.2 Scope. The scope of this Policy applies only to the pension assets invested by the District on behalf of the EBRPD General Employees Retirement Plan and Sworn Safety Employees Retirement Plan (the Retirement Plans). This scope excludes assets invested by California Public Employees' Retirement System ("CalPERS").
- 1.3 Purpose. The purpose of this Policy is to provide guidance and direction for the prudent investment of funds for the Retirement Plans and to foster the creation of a systematic and controlled investment process.
- 1.4 Public Trust. All participants in the investment process shall act reasonably as custodians of the public trust. Investment officials shall recognize that the investment portfolio is subject to and open to public scrutiny and evaluation. The overall program shall be designed and managed with the degree of professionalism required to be worthy of the public trust.
- 1.5 Authority. The investment of the funds shall be in accordance with applicable law of the State of California Government Code Sections 53215-53224 relating to a local agency pension trust.

2. ASSET CLASSES

For the purpose of setting objectives and guidelines on the different parts of this Policy, the investments are categorized into asset classes as following:

Domestic Equity
International Equity
Domestic Fixed Income
Short-term Investments/Cash

3. INVESTMENT PERFORMANCE OBJECTIVES

The investment goal of the Retirement Plans is to prudently invest plan assets to obtain the highest possible returns to best fund the payments due retired employees of the District while assuming a reasonable risk posture and protecting against loss of purchasing power. At the same time, the fund shall maintain an adequate percentage of the portfolio directly and/or indirectly in liquid short-term securities to meet requirements for cash flow.

The District recognizes that the value of Retirement Plan assets carried on a market value basis is inherently volatile due to the nature of equity and fixed income returns. The District desires to accept less than typical retirement plan volatility in its Retirement Plan investments reflecting the closed nature of its plans and the above average age of participants compared to other plans. The District expects Retirement Plan assets to experience volatility in keeping with the adopted asset allocation targets in Schedule I of this document.

- 3.1 General. The objective of each asset class is to generate a rate of return that protects against loss of purchasing power and on a long-term basis (3-5 years), exceed the net return on investment in the asset class' market index (benchmark) and database median.
- 3.2 Domestic Equities. The objective of the Domestic Equity class is to generate a rate of return in excess of the ~~S&P 500~~Russell-3000 and achieve a rate of return within the upper half of the Wilshire COOP database of United States equity portfolios.
- 3.3 International Equities. The objective of the International Equity class is to generate a rate of return in excess of the MSCI EAFE Index and achieve a rate of return within the upper half of the Wilshire COOP database of international equity portfolios.
- 3.4 Domestic Fixed Income. The objective of the Domestic Fixed Income class is to generate a rate of return in excess of the Barclays Capital U.S. Aggregate Bond Index and achieve a rate of return within the upper half of the Wilshire COOP database of fixed income portfolios.
- 3.5 Short-term Investments/Cash. The objective of the Short-term Investments/Cash class is to achieve a return in excess of the current 90-day Treasury Bill.

4. ASSET ALLOCATION

The Board Finance Committee has adopted asset allocation targets, rebalancing and cash flow policies put forth herein as follows:

- 4.1 Targets. The asset allocation targets and their associated ranges, which are a function of the returns and risks from various asset classes and the nature of the plan's liabilities, are set forth on Schedule I of this Policy, and allocation to investment managers on Schedule II. The Board Finance Committee may make tactical adjustments to these targets and ranges, and may change the targets and ranges as appropriate.

- 4.2 Rebalancing. At least annually or as otherwise determined by the Board Finance Committee, the Chief Financial Officer of the District shall direct the rebalancing of asset allocations to meet the target allocations of this Policy if an asset class is +/- 5% from its target allocation.
- 4.3 Cash Allocation. The primary means of rebalancing will be to use contributions and withdrawals. New contributions will be used to fund the asset class that is below target. Cash flow into the Retirement Plans in excess of short-term cash needs will be allocated to the most under-target asset class. If that asset class is fixed income, the contribution shall be to market value based fixed income investments. Cash flow out of the Retirement Plans retirement benefits and administrative expenses will be planned for and will generally come from available cash. Unforeseen cash flow needs will come from available cash, then from the most over-target asset class.

5. INDEPENDENT INVESTMENT ADVISOR

The District shall retain the services of an Independent Investment Advisor to assist the Chief Financial Officer. The services expected from the Investment Advisor include, but are not limited to, the following:

- 5.1 Annually review this Policy and recommend amendments as needed to meet the objectives of the District.
- 5.2 Provide advice and recommendations about the composition and use of investment vehicles available to the District.
- 5.3 Monitor the performance and status of investment managers appointed by the District. Review monthly statements provided by investment managers.
- 5.4 Evaluate asset allocation targets and recommend rebalancing as necessary to be in line with the targets of this Policy and the strategies of the District.
- 5.5 Provide quarterly investment performance reports and analysis on all investment holdings by asset class and investment manager to include peer group and benchmark measurements.
- 5.6 Provide an investment overview to the Board Finance Committee on an annual basis to report the status and performance of investments, investment managers, recommended investment strategies and the market in general.
- 5.7 Provide advice on the actuarial rate of return on pension assets for consideration by the District's pension actuary.

6. INVESTMENT MANAGERS

Investment managers hired by the District will be registered investment advisers with the Securities and Exchange Commission or trust companies regulated by state and federal banking authorities. Investment managers are to be fiduciaries to the District and to act

in accordance with Employee Retirement Income Security Act of 1974 (ERISA) fiduciary standards and in a manner that does not violate ERISA prohibited transaction provisions (regardless of whether the trust is subject to ERISA).

The members of the investment management firm's research and portfolio teams are expected to comply with the CFA Institute Standards of Practice and Code of Ethics. Any industry or regulatory disciplinary action taken against members of the firm's investment staff must be immediately reported in writing to the Chief Financial Officer of the District and its Investment Advisor.

Under any capital market environment, the investment manager agrees to maintain the investment approach the investment manager was hired to implement. Changes to the investment manager's investment decision-making process are to be immediately reported in writing to the Chief Financial Officer of the District and its Investment Advisor.

The District acknowledges that when the Retirement Plans invest in a commingled vehicle it is not possible to dictate specific investment policies, guidelines and prohibitions. Therefore, it shall be the duty of the investment manager of such a commingled fund to provide a copy of its declaration of trust, investment guidelines, or similar document and to notify the District of changes to this document.

7. INVESTMENT GUIDELINES AND PORTFOLIO CHARACTERISTICS

All guidelines apply generally to investment managers hired by the District, including the following:

- 7.1 All investment will comply with all applicable laws of the State of California governing the investment of the pension funds of public agencies.
- 7.2 All securities transactions will be executed by reputable broker/dealers or banks, including any bank acting as custodian, and will be at a best-price and best execution basis.
- 7.3 Investments will possess value and quality corroborated by accepted techniques and standards of fundamental economic, financial and security analysis.
- 7.4 All investment portfolios will be diversified and will avoid leverage.
- 7.5 The District encourages investment managers, to the extent possible without harming the investments, to avoid investing in firms that engage in activities deleterious to the environment.
- 7.6 Domestic and International Equity class securities are expected to include common stock, convertible preferred stock and convertible bonds, as well as temporary investments in cash equivalents.
- 7.7 Domestic Fixed Income class securities will be invested in the following:
 - Obligations of the United States Treasury.
 - Obligations guaranteed or sponsored by an agency of the United States.

- Certificates of deposit and bankers' acceptances of credit worthy banks.
- Corporate bonds, asset-backed securities and other evidences of debt, primarily of investment grade credits.
- High grade commercial paper.
- Other securities as detailed in accordance with the investment manager agreement with the District.

8. DELEGATION OF AUTHORITY

The Chief Financial Officer of the District or designee, acting in accordance with written procedures and this Policy and exercising due diligence, shall be relieved of personal responsibility for an individual security's credit risk or market risk, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

The Domestic and International Equity classes and the Domestic Fixed Income class investments shall be under the supervision of qualified investment managers. Subject to the terms and conditions of this Policy, investment managers shall have full discretionary power to direct the investment, exchange, liquidation and reinvestment of the assets of the managed accounts as directed by agreement with the District. The investment managers shall place orders to buy and sell securities and, by notice to the custodian bank, shall cause said custodian to deliver and receive securities on behalf of the Retirement Plans.

The District delegates to its investment managers the responsibility for voting proxies. The investment managers will vote the proxies using their best judgment to achieve the economic interests of the Retirement Plans. The investment managers will provide periodic reports on proxy voting to the Chief Financial Officer of the District and its Investment Advisor.

9. ETHICS AND CONFLICTS OF INTEREST

The Chief Financial Officer of the District, and all personnel responsible for authorizing the purchase of investments, shall refrain from personal business activities that could conflict with proper execution of the investment program and/or which could impair their ability to make impartial investment decisions. The Chief Financial Officer and all responsible personnel shall disclose to the Board of Directors and the General Manager any material financial interests in any financial institutions that conduct business with the District that could be related in a conflicting manner to the performance of the District's investment portfolio.

The Chief Financial Officer and all investment personnel, designated by the District Clerk of the Board shall complete, on an annual basis, the State of California Fair Political Practices Commission Statement of Economic Interests, Form 700.

10. TRANSACTIONS AND BROKERAGE

The District expects that its investment managers will seek best execution when conducting all trades and to execute in accordance with ERISA's fiduciary standards and without violating ERISA's prohibited transaction prohibitions. Best execution includes consideration of commission and market impact costs when trading securities. The investment manager will provide periodic reports to the Chief Financial Officer of the District and its Investment Advisor regarding commission and execution costs.

The District expects that all securities transactions will be executed through reputable broker/dealers. In purchasing investments, financial institutions within Alameda and Contra Costa Counties will be considered when possible provided that the offering meets the criteria established by this Policy.

11. SAFEKEEPING AND CUSTODY

All security transactions shall be conducted on a standard delivery versus payment (DVP) basis. All securities purchased or acquired shall be held by a third-party custodian with a custodial agreement with the District, held in the District's name and control, and shall be evidenced by regular reports provided by the custodian. All bank deposits shall be FDIC insured or deposited with institutions, which comply with the State Collateral requirements for public funds.

12. REPORTING

The District shall report annually to the Board Finance Committee on the investment status and performance of the Retirement Plans. The annual report shall also include a detailed statement of operating expenses for operating the Retirement Plans. In addition, investment performance will be reviewed and evaluated quarterly by an independent investment advisor hired by the District and reviewed with the Chief Financial Officer of the District.

The District's Investment Advisor, working with the custodian bank, will provide performance reports to the District on the investment managers, asset classes, and on the funds in total. The performance reports will review investment manager performance versus the respective investment manager's guidelines and benchmarks, relative portfolio investment objectives, investment strategy and portfolio allocations.

13. RETIREMENT PLAN EXPENSES

The Chief Financial Officer shall keep record of expenses related to the administration of the Retirement Plan and provide a report of these expenses to the Board Finance Committee annually. Expected expenses include, but are not limited to, services provided by the Independent Investment Advisor, District-appointed retirement actuary, retiree benefit administration, and legal services. Expenses authorized by the Chief Financial Officer are to be paid from the Short-term Investments/Cash asset class.

14. INTERNAL CONTROLS

The Chief Financial Officer of the District shall establish a system of internal controls. The controls shall be designed to prevent loss of public funds arising from fraud, employee error, and misrepresentation by third parties, or imprudent actions by employees and officers of the District. Controls deemed most important include: control of collusion, segregation of duties, separating transaction authority from accounting and record keeping, custodial safekeeping, clear delegation of authority, documentation of transactions and strategies and code of ethical standards.

15. REVIEW, ADOPTION AND AMENDMENTS

The District expects that the District-appointed investment advisor and investment managers will recommend changes to this Policy at any time when, as viewed by the advisor or managers, this policy is seen to be at variance with overall market and economic conditions. This Policy shall also be reviewed annually by the Chief Financial Officer of the District, and where appropriate, amendments brought forward to the Board Finance Committee for consideration. This policy may not be altered, amended or changed in any particular way, except by resolution of the Board of Directors.

SCHEDULE I

ASSET ALLOCATION TARGETS

Asset Classes		Allocation Ranges		
		<u>Less than 80% funded statusTarget et %</u>	<u>80% funded statusMinimum %</u>	<u>90% funded statusMaximum %</u>
<u>EQUITY:</u>				
Domestic Equity	<u>Domestic Equity</u>	<u>40%48.0</u>	<u>30%43.0</u>	<u>15%53.0</u>
International Equity	<u>International Equity</u>	<u>10%5.0</u>	<u>10%3.0</u>	<u>7.00%</u>
<u>FIXED INCOME:</u>				
Domestic Fixed Income	<u>Core Bonds</u>	<u>28%45.6</u>	<u>25%42.0</u>	<u>52.025%</u>
Short-term Investment/Cas e	<u>Intermediate Bonds</u>	<u>20%1.4</u>	<u>0.030%</u>	<u>10.055%</u>
<u>CASH</u>		<u>2%</u>	<u>5%</u>	<u>5%</u>

SCHEDULE II

INVESTMENT MANAGER ALLOCATION TARGETS

Investment Manager by Asset Class	Target %	Allocation Ranges	
		Minimum %	Maximum %
Domestic Equity:			
—Vanguard Value Index Fund	24	20	28
—Transamerica Equity Fund	24	20	28
International Equity:			
—Euro Pacific Growth Fund	5.0	3.0	7.0
Domestic Fixed Income:			
—PIMCO Total Return Fund	22.8	19.0	27.0
—Transamerica Bond Fund	22.8	19.0	27.0
Short-term Investment/Cash:			
—Transamerica Fixed Dollar Account	1.4	0.0	10.0



EAST BAY REGIONAL PARK DISTRICT
BOARD FINANCE COMMITTEE
AGENDA STATEMENT
MEETING DATE –Tuesday, October 25, 2011

SUBJECT: 2012 Preliminary General Fund Budget Summary

Report by: Pam Burnor, Budget Manager
Cinde Rubaloff, CFO/Controller
Dave Collins, AGM

ATTACHMENT: 2012 Preliminary General Fund Budget Review

RECOMMENDATION: None. This is an informational item only.

The purpose of this item is to brief the Board Finance Committee on the status of the budget process and provide an overview of the 2012 preliminary General Fund budget.

The attachment provides a schedule of the 2012 preliminary General Fund budget with a comparison to the 2011 adopted budget. Expected 2012 General Fund revenue is approximately \$101 million, with anticipated appropriations of \$106 million.

2012 Preliminary General Fund Revenue Budget Compared to 2011 Adopted Budget:

District staff, including the Revenue Manger and CFO, reviewed revenue collection trends and reduced some revenue budgets to better reflect actual collections. The following revenue categories showed significant change:

- 2012 property tax budgeted revenue is \$1.3 million higher than 2011 budgeted revenue, reflecting a 1.5% increase over 2011 budget. Although this is a significant dollar amount, it is a small percent change, which signifies that the property tax revenue trend is flat for the 2011 and 2012 budget years.
- 2012 investment interest revenue is anticipated at only \$1 million, which represents a decline of 33% from last year's adopted budget.
- 2012 miscellaneous revenue budget is increased by 10%. Much of this change is due to additional funding from the Regional Parks Foundation. The Foundation provides partial funding for two ongoing positions and starting in 2012 will fully fund one additional Administrative Analyst II for Public Affairs.
- 2012 General Fund transfers in are up 20% due to new revenue to be received from the recently acquired PG&E communication sites in the Black Diamond land banked areas and the Vasco Corridor wind farm revenues. Both sources will be used to help fund an additional FTEs in the respective areas.

2012 Preliminary General Fund Appropriations Compared to 2011 Adopted Appropriations:

- 2012 personnel budget will increase 1% (\$800,000) over the 2011 level. This increase includes the restoration or addition of 13.51 permanent, temporary and seasonal FTEs. This includes the one-time restoration of student laborers.

The total personnel budget includes all AFSCME negotiated changes at the appropriate effective dates. The changes include different medical premium costs that will be effective when all District employees switch to PERS medical plans, as well as changes to employer and employee contributions to retirement plans.

The total personnel budget does not include any adjustments for the Police Association, as those negotiations are still underway. Budget impacts from that future agreement will be included in the 2012 budget at a later date.

- Capital equipment/vehicles appropriations will increase by 54%. A one time budget request of \$200,000 was approved to restore some of the equipment/vehicle replacement funding cut in prior years.
- Debt service principal and interest payments from the General Fund reflect the final payment required for the Eagle 7 helicopter.
- 2012 intra-District charge appropriations will increase by 20% (\$1,014,000). The bulk of that increase will cover the increased charges from the Major Equipment Replacement Fund.

In addition to operating appropriations, the General Fund 2012 budget includes \$5.3 million in transfers out, which will fund debt service, the ongoing ADA program, the Quagga Mussel inspection program, and the Design and Construction Department's personnel costs, which are charged to projects.

One-Time Budget Requests:

The District ended 2010 with revenues over expenditures of \$2.9 million. These one-time revenues are being recommended by the General Manager to fund one-time 2012 expenditures. The 2012 General Fund base budget conformed to 2011 appropriation amounts, plus adjustments for required personnel cost changes. Divisions then submitted requests for one-time budget increases. Management reviewed requests and approved selected requests to be paid out of the \$2.9 million.

The major approved requests to be paid from the \$2.9 million include:

- \$800,000—Restoration of paving program funding
- \$200,000—Augmentation of District equipment/vehicle replacement
- \$150,000—Augmentation of funding for District advocate and permits
- \$150,000—Exterior painting of Peralta Oaks building
- \$130,000—Helicopter maintenance contract
- \$120,000—Temp FTE (Admin Analyst II) to administer the paving program
- \$100,000—Funding for Big Break Regional Science Center staff and supplies

Use of Designated Fund Balance for “Smoothing”:

In 2009 the District designated \$9 million in General Fund fund balance to be used to “smooth” the anticipated gap between reduced tax revenues and expenditures for the succeeding three years. The 2011 General Fund budget required the use of approximately \$3.5 million of the designated “smoothing” funds. For 2012, the projected use of the “smoothing” funds is between \$2.5 million and \$3 million.

The intent of this informational report is to provide a basic outline of the 2012 General Fund budget process to date. A few minor modifications to this information may be required before the proposed budget is prepared. The proposed budget will be presented to the Finance Committee at the November meeting.

East Bay Regional Park District
2012 Preliminary General Fund Budget as of October 17th, 2011

Line Item	Sources	2012 Preliminary Budget	2011 Adopted Budget	Difference	% Change
1	Taxes & Assessments	\$ 88,990,000	\$ 87,700,000	\$ 1,290,000	1.5%
2	Charges for Services	7,921,200	7,997,200	(76,000)	-1.0%
3	Property Usage	1,778,500	1,712,000	66,500	3.9%
4	Interest	1,000,000	1,500,000	(500,000)	-33.3%
5	Inter-agency Agreements&Grants	448,000	433,400	14,600	3.4%
6	Misc Revenue	550,042	499,700	50,342	10.1%
7	Transfer In	169,000	141,000	28,000	19.9%
		<u>\$ 100,856,742</u>	<u>\$ 99,983,300</u>	<u>\$ 873,442</u>	<u>\$ 0.04</u>
	Uses				
8	Personnel Costs	\$ 73,449,677	\$ 72,642,940	\$ 806,737	1.1%
9	Supplies	7,194,344	7,048,730	145,614	2.1%
10	Services	12,867,429	12,917,360	(49,931)	-0.4%
11	Capital Outlay/Equip	532,250	345,250	187,000	54.2%
12	Inter-agency Agreements	200,000	200,000	-	0.0%
13	Debt Service	765,217	710,700	54,517	7.7%
14	Debt Svc Interest	28,849	83,500	(54,651)	-65.5%
15	Intra-District Charges	5,954,074	4,939,990	1,014,084	20.5%
	Transfers Out	5,306,945	4,597,920	709,025	15.4%
		<u>\$ 106,298,785</u>	<u>\$ 103,486,390</u>	<u>\$ 2,812,395</u>	<u>2.7%</u>
	excess appropriations over revenue	(5,442,043)			
	2010 revenue > expenditures*	2,910,600			
	smoothing	<u>\$ (2,531,443)</u>	<u>\$ (3,503,090)</u>		

2012 General Fund
FTE Additions List

FTE Change	Status	Position/Location	Fund	Revenue Source
1.00	Permanent	Public Affairs Administrative Analyst	101	Foundation
0.25	Permanent	Black Diamond Ranger Upgrade	101	Thomas Property Revenue
0.25	Permanent	Volunteer Dept Resource Analyst related to reorg 2011-9-201	101	
1.00	Permanent	Civil Engineer	336	101
-0.17	Permanent	Construction Inspector	336	101
-1.00	Permanent	Senior Park Designer	336	101
2.00	Seasonal	Big Break Science Center Interpretive Student Aides	101	
6.54	Seasonal	Student Laborers	101	
0.25	Seasonal	Recreation Leaders	101	
0.34	Seasonal	Gate Attendant at Lake Chabot	101	
0.50	Temporary	Acting Supervising Naturalist	101	
0.50	Temporary	Naturalist-Backfill	101	
1.00	Temporary	Paving Administrative Analyst	101	
0.40	Temporary	Reservations Office Specialist	101	
0.50	Temporary	Finance Account Clerk	101	
0.15	Temporary	Diablo Foothills Shuttle Driver	101	
<u>13.51</u>				