



Midpeninsula Regional
Open Space District

R-21-89
Meeting 21-19
June 23, 2021

AGENDA ITEM 7

AGENDA ITEM

Authorization to Contribute a \$1.0 Million Payment from Fiscal Year 2020-2021 Budget Savings to the Section 115 Trust Administered by Public Agency Retirement Services (PARS)

GENERAL MANAGER'S RECOMMENDATION

Authorize the General Manager to deposit \$1.0 Million into the Midpeninsula Regional Open Space District's PARS account established under a Section 115 Trust to pre-fund pension obligations.

SUMMARY

Towards the end of a fiscal year, staff evaluates and projects savings of salaries and benefits, comparing the adopted budget amounts with the actual and anticipated expenditures to determine a prudent amount that can be allocated to reduce the unfunded pension liability. Based on the most current review of Fiscal Year 2021 (FY21) salary expenditures, the General Manager recommends a transfer of \$1.0 million into the Midpeninsula Regional Open Space District's (District) Section 115 Trust held with PARS. To mitigate the future effects of increases to pension costs due to volatile investment returns and/or changes in actuarial parameters, it is preferable for the District to pursue a strategy of paying down its unfunded liability. The District Controller agrees with the proposed transfer.

DISCUSSION

The Board of Directors (Board) approved a \$3 million prepayment to CalPERS in June 2016 and \$1 million in June 2017 to reduce the Midpeninsula Regional Open Space District's (District) unfunded pension liability. In 2018, the Board approved the establishment of a Section 115 Trust administered by PARS with an initial funding of \$500,000 and an additional funding of \$2 million and \$1.5 million in June 2019 and June 2020, respectively.

The District received its most recent CalPERS Annual Valuation Report in July 2020 (valuation date of June 30, 2019). As of June 2019, the District's CalPERS account had market assets of \$61.7 million, with an unfunded liability of \$13.6 Million, or a funded ratio of 81.9%, a slight increase from the prior year's ratio of 81.7%. The District's funding ratio increases to 87.24% when including the \$4.0 million (excluding investment returns) in the Section 115 Trust administered by PARS, and would increase to 88.57% with the proposed \$1.0 million additional funding of the 115 Trust (see table on following page). This compares favorably to the overall CalPERS funded ratio of 70.2% as of June 30, 2019.

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

FY17	11.2%
------	-------

FY18	8.6%
FY19	6.7%
FY20	4.7%

CalPERS will report initial FY2021 returns in July, with the expectation of improved returns following the strong rebound in equity markets as the COVID-19 pandemic subsided. As of June 2, 2021, CalPERS reported a total market value of \$465.3 billion as compared to net assets of \$392.5 billion at June 30, 2020.

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

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

The latest CalPERS Valuation Report for the District is dated June 30, 2019 and the June 30, 2020 report will not be available until July/August 2021. The evolution of the District's funded ratio as shown below is dynamic and should be viewed with the caveat that the market value of plan assets is driven by market returns (gains/losses) and the accrued liability is a function of changes to actuarial assumptions and the discount rate.

	<u>Market Value of Plan Assets</u>	<u>Accrued Liability</u>	<u>Funded Ratio</u>
CalPERS Valuation June 30, 2019	61,712,938	75,323,273	81.93%
Pre-funding Contributions FY18-20 (before investment returns)	<u>4,000,000</u>		
	65,712,938	75,323,273	87.24%
Pre-funding Contribution FY21	<u>1,000,000</u>		
June 30, 2021	66,712,938	75,323,273	88.57%

BOARD AND COMMITTEE REVIEW

This item was not previously reviewed by the Board or a Committee.

FISCAL IMPACT

The proposed contribution will be a payment towards reducing the District's unfunded pension liability. This contribution is offset by projected savings in salaries and benefits as budgeted in FY21. The added benefit of the contributions to PARS is that the District can transfer these funds to CalPERS at any point in time and could be used to pay the District's ongoing pension obligations if there was a severe economic downturn or deterioration in the District's finances.

PUBLIC NOTICE

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

CEQA COMPLIANCE

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

NEXT STEPS

Upon approval, staff transfer \$1.0 Million to the Section 115 Trust at PARS prior to the end of FY21.

Responsible Department Manager:
Stefan Jaskulak, Chief Financial Officer

Prepared by:
Andrew Taylor, Finance Manager and Disclosure Coordinator