



Midpeninsula Regional  
Open Space District

R-23-63  
Meeting 23-15  
June 14, 2023

## AGENDA ITEM 5

### AGENDA ITEM

Authorization to Contribute a \$1.5 Million Payment from Fiscal Year 2022-2023 Budget Savings to the Section 115 Trust Administered by Public Agency Retirement Services (PARS)

### GENERAL MANAGER'S RECOMMENDATION

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

### SUMMARY

At the approach of the fiscal year end, staff evaluates and projects savings of salaries and benefits, comparing the adopted budget amounts with the actual and anticipated expenditures for the fiscal year to determine a prudent amount that can be allocated to reduce the unfunded pension liability. Based on the most current review of Fiscal Year 2023 (FY23) salary expenditures, the General Manager recommends a transfer of \$1.5 million into the Midpeninsula Regional Open Space District's (District) Section 115 Trust held with PARS. To mitigate the future effects of increases to pension costs due to volatile investment returns and/or changes in actuarial parameters, it is preferable for the District to pursue a strategy of paying down its unfunded liability. The District Controller agrees with the proposed transfer.

### DISCUSSION

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

|      |               |
|------|---------------|
| FY19 | \$2.0 million |
| FY20 | \$1.5 million |
| FY21 | \$1.0 million |
| FY22 | \$1.5 million |

The District received its most recent CalPERS Annual Valuation Report in July 2022 (valuation date of June 30, 2021) for the Classic Pension Plan (2.5% at 55). As of June 30, 2021, the District's CalPERS account had market assets of \$80.5 million, with an unfunded liability of \$7.5 million or a funded ratio of 91.5%. The funded ratio increased from 80.4 % in the prior year, as CalPERS reported a preliminary 21.3% net return on investments for Fiscal Year 2020-21. The return exceeded the 7% discount rate, which allows CalPERS to use a portion of the investment gain to offset the cost of reducing the expected volatility of future investment returns. The reduction in investment volatility results in a reduction in the discount rate from 7.0% to 6.8%. The District's funding ratio increases to 98.9% when including the \$6.5 million (excluding investment returns) in the Section 115 Trust administered by PARS, and would increase to 100.6% with the proposed \$1.5

million additional funding of the 115 Trust (see table on following page). This compares favorably to the overall CalPERS funded ratio of 81.2% as of June 30, 2021.

In line with the Funding Risk Mitigation Policy adopted by the CalPERS Board in 2015, the discount rate has gradually been lowered, which inherently increases the unfunded liability. The discount rate was dropped to 6.8% in July of 2021, triggered by the 21.3% investment return.

|      |        |
|------|--------|
| FY18 | 7.375% |
| FY19 | 7.25%  |
| FY20 | 7.00%  |
| FY21 | 7.00%  |
| FY22 | 6.80%  |

The next CalPERS Valuation Report for the District dated June 30, 2022 will not be available until July/August 2023. 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<br/>Value of<br/>Plan Assets</u> | <u>Accrued Liability</u> | <u>Funded Ratio</u> |
|---|--|--------------------------|---------------------|
| CalPERS Valuation June 30, 2021                                     | 80,482,517                                 | 87,933,757               | 91.5%               |
| Pre-funding Contributions<br>FY18-22 (before investment<br>returns) | <u>6,500,000</u>                           |                          |                     |
| Estimated Valuation with Pre-<br>funding Contributions              | 86,982,517                                 | 87,933,757               | 98.9%               |
| Pre-funding Contribution FY23                                       | <u>1,500,000</u>                           |                          |                     |
| Estimated Valuation June 30, 2023                                   | 88,482,517                                 | 87,933,757               | 100.6%              |

**PRIOR BOARD AND COMMITTEE REVIEW**

None

**FISCAL IMPACT**

The proposed contribution will be a payment towards reducing the District’s unfunded pension liability. This contribution is offset by projected savings in salaries and benefits as budgeted in FY23. The added benefit of the contributions to PARS is that the District can transfer these funds to CalPERS at any point in time and could be used to pay the District’s ongoing pension obligations if there was a severe economic downturn or deterioration in the District’s finances.

**PUBLIC NOTICE**

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

**CEQA COMPLIANCE**

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

**NEXT STEPS**

Upon approval, staff will transfer \$1.5 Million to the Section 115 Trust at PARS prior to the end of FY23.

Responsible Department Manager:  
Stefan Jaskulak, Chief Financial Officer

Prepared by:  
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