BOARD FINANCE COMMITTEE

EAST BAY REGIONAL PARK DISTRICT
2950 Peralta Oaks Court
Oakland, CA

May 27, 2009
12:45 p.m., Board Room

The following agenda items are listed for Committee consideration. In accordance with the Board Operating Guidelines, no official action of the Board will be taken at this meeting; rather, the Committee's purpose shall be to review the listed items and to consider developing recommendations to the Board of Directors.

AGENDA

STATUS	TIME		ITEM	STAFF
(R)	12:45 p.m.	1.	Actuarial Valuation Reports for: • East Bay Regional Park District Miscellaneous and Pooled Safety Plans (CalPERS) • East Bay Regional Park District Retiree Healthcare Plan (OPEB/GASB 45 Actuarial Valuation) • East Bay Regional Park District Sworn Safety and General Employees Retirement Plans (Transamerica)	Bartel
(R)	1:15 p.m.	2.	Annual Risk Management Report	Moss
(R)	1:45 p.m.	3.	Investment Report March 31, 2009	Rubaloff
(I)	2:00 p.m.	4.	2009 1st Quarter Budget to Actual	Rubaloff
(R)	2:15 p.m.	5.	Appointment of Measure WW 2009 Bond Team	Collins
	2:45 p.m.	6.	Public Comments	

(R) Recommendation for future Board consideration
(I) Information
(D) Discussion

Future 2009 Meeting Dates:
June 24, July 22, August 26, Sept 23, Oct 28, Nov 25, Dec 23

AGENDA
REGULAR MEETING
BOARD OF DIRECTORS

EAST BAY REGIONAL PARK DISTRICT

Wednesday, June 17, 2009

C. BUSINESS BEFORE THE BOARD

7. BOARD COMMITTEE REPORTS

a. Finance Committee Minutes and Recommended Actions from the May 27, 2009 Meeting (Dotson)

Attendees

Board: Director Dotson (for Lane), Doug Siden, Ayn Wieskamp

Staff: Pat O'Brien, Dave Collins, Ted Radosevich, Cinde Rubaloff, Bill Louie, Dave Sumner, Davio Santos, Sharon Corkin, Larry Moss, Nadine Vargas, Anna Fong, Paul Ferrario, Bill Louie

Public: Bick Hooper, Brenda Wood, John Bartel and Doug Pryor

*Due to the fact that Mr. Bartel and Mr. Pryor were not present for the start of this meeting, Director Siden asked that The Annual Risk Management Report be presented as the first item on the Agenda for the meeting.

1. Annual Risk Management Report

Risk Manager Larry Moss introduced himself and reviewed the duties of the Risk Department, which oversees an $11 million program to preserve District assets through the purchasing of insurance for fire, earthquakes, etc., as well as ensuring the health and safety of both District employees and the public. Workers' compensation and other employee safety issues are included in these responsibilities, as is minimizing the cost of insurance premiums and other protections. Recently, he has been working with other District staff on the issue of reducing fees (up to 75% in some instances) related to hazmat cleanup.

The largest component of the Risk budget is for workers' compensation, due to both day-to-day injuries as well as awards for long-term injuries. This program is adequately funded at this point due to advanced planning. AGM Collins noted that the actuarial calculation for workers' compensation liability is conservatively funded at the 85% confidence level. Mr. Moss introduced and acknowledged Anna Fong, Risk Analyst, who works with a third party contractor to minimize the cost of workers' compensation claims paid by the District.

GM Pat O'Brien noted that the District's safety training program is extensive, and that Mr. Moss' oversight of this program has been tremendous. GM O'Brien added that supervisors and staff are diligent about job safety regulations and guidelines, which helps to reduce job injury claims. Mr. Moss spoke about the "Light Duty" work program, which keeps people on the job in less strenuous roles than their usual work assignments while they heal from injuries. He also notified the group that although the number of employees at the District continues to grow, the number of claims has decreased.

Director Wieskamp asked for and received more information on the employee Safety Academy.

Mr. Moss briefly spoke about the District's caseload of liability claims, specifically, our few drownings. He stated that the District's Aquatic staff is very well trained, making liability cases against the District very defensible.

Mr. Moss also reviewed subrogation, where someone else is at fault, and how District staff is very diligent about keeping damage claims under control by reporting events properly. This year, the District has recovered about $27,000 in subrogation claims via small claims court.

The last major area that the Risk Department oversees is insurance for damages, stolen items, etc. Mr. Moss reiterated that for the most part, the District's insurance company has covered damaged items at or above the value of the damages. He also noted that the need for recovering damages is decreasing as the District's security improves.

The District's earthquake insurance policy, notably expensive, covers four main buildings that are directly on the Hayward Fault: the Administrative Office, Temescal, Tilden Nature Area, and the Brazil Room. The insurance costs $.93 for every thousand-dollar value of the property covered, as opposed to fire insurance, which is $.23 per thousand. Mr. Moss is working with insurers to make sure the levels of coverage and costs are accurate.

Director Wieskamp stated her appreciation for Risk's responsibilities, both big and small, as well as the training sessions they coordinate. She noted that the earthquake insurance costs are beyond our control.

Director Siden shared how impressed he had been with Mr. Moss' past presentations, and he was especially pleased to hear about the increasing number of staff and the declining number of claims. He added that the entire Risk staff should be commended. He then asked for and received clarification regarding the older open claims.

CFO/Controller Cinde Rubaloff reiterated Mr. Moss' earlier notation about Risks' annual planning process. Actuarially determined liabilities and the amount of District reserves will be used as the basis for determining 2010 budget amounts for workers' compensation and general liability areas.

Director Siden asked for and received clarification regarding the insurance firm we have been using, and asked if the District had done an RFP. Mr. Moss and Ms. Fong answered the there was an RFP three years ago. The District may issue another RFP next year, but they noted that the current firm has provided competent services and fair costs in the past.

PAC Chair Bick Hooper asked about where/how past drownings have occurred, and Mr. Moss explained the situations and resolutions. He commended the lifeguards for their diligence and emphasized the strict standards and training of all District lifeguards.

GM O'Brien agreed that the District lifeguards are very well trained.

Director Siden once again commended the Risk department, and Mr. Moss gave credit to his staff, Paul Ferrario and Anna Fong.

Moved by Director Wieskamp, seconded by Director Dotson, the Committee unanimously recommended that the Risk Management Report be sent to the full Board for favorable consideration.

2. Actuarial Valuation Reports for:
   - East Bay Regional Park District Miscellaneous and Pooled Safety Plans (CalPERS)
   - East Bay Regional Park District Retiree Healthcare Plan (OPEB/GASB 45 Actuarial Valuation)
   - East Bay Regional Park District Sworn Safety and General Employees Retirement Plans (Transamerica)

CFO/Controller Cinde Rubaloff introduced actuaries John Bartel and Doug Pryor. They requested the Committee ask questions as needed during their review.

The first report was on CaLPERS Actuarial Issues. Mr. Bartel pointed out a few items as follows:

- The biggest issue for the District right now is CaLPERS' investment return. Investment returns decreased significantly during 2008 which impacts future District contributions. Mr. Bartel stated his opinion that if the District pays the contribution that CaLPERS requests, it will be insufficient to cover the increase in the unfunded liability. As a consequence, the District's unfunded liability will increase rather than decrease in the coming years.
- Historically, CalPERS has relied upon a "smoothed" investment rate of return of a positive 7.75%. Anticipated investment returns as of June 30, 2009 are projected at negative 24%, producing an actual performance for 2008/2009 of 31.75% less than anticipated.

Director Wieskamp asked for and received clarification on the term "smoothed". Mr. Bartel noted that it is a common actuarial technique used to counter market volatility and can be compared to averaging where the recognition of investment gains and losses is amortized over a number of years, rather than being recognized in full in the year earned.

Davio Santos asked for and received clarification on how inflation affects CaLPERS "smoothing." Mr. Bartel answered that inflation is inherent in the assumed rate of return, and is not a separate component in and of itself. The real rate of return is the rate that CaLPERS believes that they will get above inflation over the long run. He then gave an example of looking at one years' worth of rate of return: If CALPERS expects a 7.75% rate of return, 3% of that amount is to account for inflation.

With respect to smoothing, if the annual rate of return for year one is actually 22.75%, 15% above the expected 7.75% rate of return, that 15% will be amortized over 15 years and thus 1% will be recognized each year for the next 15 years. Consequently, although the actual return earned for year one was 22.75%, only 8.75% will be recognized in the current year, with the remaining 14% to be added to the rate of return earned over the next 14 years at 1% a year.

Mr. Bartel stated that the projected CalPERS contribution rate would not be adequate to decrease future unfunded liability. Paying only CalPERS' required contribution rate will result in pushing the current liability into the future. He recommended that the District consider paying greater than the CalPERS required amount to reduce the future unfunded liability amount. He suggested that the District wait and see where the rates go before payment determining what additional annual amount might be appropriate to pay.

AGM Dave Collins reiterated this point and in addition referred to Mr. Bartel's charts to note that staff also thinks it prudent to seek a stable annual benefit contribution rate as a percent of salary, but will continue to monitor and gather information on the matter before bringing a recommendation forward for consideration.

GM O'Brien agreed that the change in benefit contribution is a policy issue and, as time goes on and more data is received, the District would keep looking at alternatives.

Director Wieskamp noted her surprise at the CaLPERS "smoothing" technique which results in a higher unfunded liability over time. Mr. Bartel explained that in some ways, what CaLPERS is doing may be seen as positive: The best scenario would be to pay the unfunded liability off sooner, as he suggests, but paying it off over some period of time is better than not paying at all.

Mr. Bartel reviewed the differences between the CalPERS program for general employees versus the program for public safety, the most significant being that the District has no flexibility in contribution levels to the public safety plan because we are part of a "pool". This means that excess contributions to the public safety plan (above that recommended by CalPERS) would be captured by, and benefit, the "pool," not the District.

Additionally, Mr. Bartel noted that the District has a side fund loan with CalPERS, which was instituted at the time it joined the plan as a requirement to equalize financial exposure among pooled participants. The current balance of this side fund is $9.1 million, which is being paid back over the next 10 years at 7.75% interest rate.

AGM Collins explained that when the District moved to CalPERS, the public safety plan was placed in a pool of similar agencies due to the small number of participants in this plan. Initially, when we joined the "pool" and incurred the debt, the District's investment rate of return was closer to the interest rate charged by CalPERS; therefore the cost to the

District was relatively low. At this point, with the District's investment return at 1%, the differential between the return earned on the District's investments is much higher and repayment of the 7.75% loan becomes more critical. The Board has previously approved the refunding of the side fund, but due to the "freeze" in the credit markets, it has been difficult to refund the debt. A tentative agreement was being negotiated with Bank of America, but the conditions of the loan agreement were so onerous that the District did not proceed. Alternatives are being considered, including paying all or a portion of the side fund debt with fund balance.

Davio Santos asked about the "smoothing" period, and if in 2-5 years, the economy turned around and got above the 7.5% assumption, would the trend be the same? Mr. Bartel answered that to offset the current level of losses, the rate of return for next year would need to be around 40% or higher. He didn't expect the rate of return to be high enough to offset this year's losses, nor that they would be close to this range anytime soon.

Sharon Corkin asked for and received clarification on the anticipated increase in the CaLPERS rate of 3.7%. She asked about the annual evaluations, and whether the District as a public agency is required to have them. Mr. Bartel answered that yes, the District gets two evaluations – one for the General plan and one for Public Safety.

AGM Collins stated that staff is asking the committee for a recommendation to accept the actuarial report that has been prepared by Bartel and Associates which indicates that, going forward, the District can expect some increases in CaLPERS rates. He also noted that staff will request further information from Bartel and Associates to allow for consideration of future changes in contribution rates.

Moved by Director Wieskamp, seconded by Director Dotson, the Committee unanimously recommended that this information (Attachment A) be forwarded to the full Board for favorable consideration and further, that Bartel and associates continue to monitor the presented reports for future changes.

The second report (Attachment B) - the January 1, 2008 OPEB GASB 45 Retiree Healthcare Plan Actuarial Study, was then reviewed by Mr. Bartel, who noted that this report, in contrast to the previous report, is done every two years. He briefly summarized the retiree medical costs and benefits. He noted that the more conservative assets held by this plan did not eliminate the volatility encountered through the market during 2008. Despite this volatility; however, the contributions by the District have been adequate to fund the plan at an actuarially recommended level. Mr. Bartel noted that the OPEB contribution rate will decrease from 11.4% in 2008 to 9.5% in 2009.

Sharon Corkin wanted to know the entire amount paid in OPEB benefits during 2008. Mr. Pryor answered that $1.27 million was paid in 2007 benefits, and $910,000 in 2008 (not a full year's payment), using the charts in his reports for reference. He expects the amount for 2009 benefits to increase due to a higher cost of benefits, as well as the increase in number of retirees during this period.

Benefits Manager Bill Louie noted that percentage-wise, the largest cause of the change from 2008 to 2009 is likely due to the increase in healthcare costs rather than the number of retirees.

Moved by Director Wieskamp, seconded by Director Dotson, the Committee unanimously recommended that the valuation report on OPEB (Attachment B) be forwarded to the full Board for favorable consideration.

The third report (Attachment C) was presented by Doug Pryor. It is a valuation report that reviews the impact of investment losses on the East Bay Regional Park District General Employees and Sworn Safety Retirement Plans (Transamerica). There are approximately 30 general employees still active in this plan and no active public safety participants. The April 1, 2009 valuation will be completed this summer and will determine the 2010 contribution rates. In the meantime, the impact of current investment losses will need to be considered in the current work. The plan has experienced a significant investment loss of $8.4 million out of the total assets of approximately $30 million. The District can opt to recognize the total investment loss and contribute an additional $970,000 each year for ten years to fund it, or the District can consider utilizing "smoothing" in relationship to this plan. The recommendation is to "smooth" over a short duration (2-5 years), based upon the age of the plan participants. This could decrease the required additional contribution to approximately $350,000 a year.

Moved by Director Wieskamp, and seconded by Director Dotson, the Committee unanimously recommended that this information (Attachment C) be forwarded to the full Board for favorable consideration. Director Wieskamp also asked that Bartel and Associates provide further clarification on the definition of "smoothing".

Director Siden stated his appreciation for Bartel and Associates' valuable services to all District employees, whose retirements should be adequately funded. He shared that it was a goal for the Board and staff to protect District staff's retirements. Mr. Bartel thanked him for the opportunity to speak.

3. Investment Report

CFO/Controller Rubaloff reviewed some changes in the District's Quarterly Investment Report format. She changed the design of the report to include bank fees and investment fees, which had previously been included with investment returns, and thus were not obvious. The increased transparency in showing the amount of fees will support the goal of decreasing them. The new format also compares investment returns against prior quarter, prior year, and benchmarks.

Moved by Director Wieskamp, seconded by Director Dotson, the Committee unanimously recommended that this report be forwarded to the full Board for favorable consideration.

CFO/Controller Rubaloff asked the group whether they would like to continue receiving detailed attachments such as the ones they received with this meeting material; the group indicated that they indeed thought it was helpful. Director Siden also mentioned that for public accountability, the attachments should be continued.

4. 2009 1st Quarter Budget to Actual

CFO/Controller Rubaloff performed an overview of the first quarterly budget to actual results for both revenue and expenditures. Less than 25% of annual revenues had been collected as of 3/31/09, which is reasonable due to the cyclical nature of the District's activities. Divisions with less than 75% of annual budget remaining had encumbered funds for annual contracts, the consequence of which was an inflation of first quarter expenditures, which will be incurred and paid throughout the year. AGM Collins and CFO/Controller Rubaloff clarified the last three items on the report. Staff has proposed the following changes to be implemented with the 2010 budget: eliminate the 9110 department for expenses, move all Risk Department expenses to the internal service fund, and correct classification of agency/special revenue funds.

AGM Collins also noted that CFO/Controller Rubaloff has been reviewing the District's finances and implementing corrections to the CAFR. This thorough and extended review of the CAFR is the reason that, unlike past years, the CAFR will not be brought forth at this (May) Finance Committee, but will instead be presented at the June Finance Committee meeting.

PAC Chair Bick Hooper asked if the CAFR would go to the PAC soon. The answer was that it would be presented to the PAC at the June meeting.

Director Siden asked for and received clarification of the acronym "PO," which stands for Purchase Order encumbrances as explained by CFO/Controller Rubaloff.

This was an informational item only, no action is required.

5. Appointment of Measure WW 2009 Bond Team

AGM Dave Collins asked the Committee for a recommendation for the appointment of two members of the bond financing team– KN to be the District's Financial Advisor, and Jones Hall to serve as Bond Counsel.

In the next few months, staff plans to go to the market for these bonds, with the sale to be concluded by mid-September. Staff is undecided as to whether there will be a competitive sale or a negotiated sale.

Davio Santos asked about the timing of ERAF, and when we can expect it to happen. He wanted to know if we will have to wait through the summer. GM O'Brien noted that it was out of our control. The State will take 8% of all property taxes, but it is not known how that percentage be dispersed. The District will have to wait until after the State Budget is complete. The timeline may be shorter than in the past, and we will know what is being proposed soon. Actual implementation of the proposal may take longer if implementing language is not included in the budget and trailer bills need to be adopted. Hopefully in early June, if the State Budget passes, the District will have more information.

Director Siden asked for and received clarification about the Resolution of Intention referred to in AGM Collins' attachment.

> **Moved by Director Dotson and seconded by Director Wieskamp, the Committee voted to forward the recommendation for the Bond Finance team appointment to the full board.**

Public Comments:

GM O'Brien brought up an article published in the San Francisco Chronicle regarding the State taking money from their General Fund budget away from California State Parks. If they did so, the State parks would have to survive on user fees alone, which would be devastating for the park system. He also reiterated that the District is working with Sacramento contacts to keep the District's exemptions higher for ERAF.

Director Siden asked about future dates July 22 and December 23, which are still on hold pending agenda items.

The meeting was adjourned at 2:42 pm.

The next meeting is scheduled for Wednesday, June 24 at 12:30pm in the Board Room.