

AGENDA
REGULAR MEETING
BOARD OF DIRECTORS

EAST BAY REGIONAL PARK DISTRICT

Tuesday, November 8, 2011

C. BUSINESS BEFORE THE BOARD

7. BOARD COMMITTEE REPORTS

- b. Finance Committee Minutes and Recommended Actions from the October 25, 2011 Meeting (Sutter)

Attendees

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

Staff: Bob Doyle, Dave Collins, Cinde Rubaloff, Pam Burnor, Carol Victor, Meadow D'Arcy, Deborah Spaulding, David Sumner, Sue Kyle

Milliman Bob Helliesen, CFA, Principal
Timothy Price, CFA, Senior Investment Consultant

Park Advisory Committee Dan Walters

Public: None

Chairperson, John Sutter began the meeting at 12:50PM with introduction of the committee members.

Agenda Item No. 1
EBRPD Retirement Plans Long-Term Asset-Liability Study and
Revision to the EBRPD Retirement Plans' Investment Policy

AGM Dave Collins reviewed with the Committee the fact that the District employs Milliman, Inc., as 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.

AGM Collins then reported 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 payment increase as a percentage of assets.

AGM Collins continued that there is a need to establish a long term investment plan that has tiered investment strategies that are associated with the funding level of the plan.

AGM Collins noted that at the last Board of Directors meeting the Board approved a \$3 million payment to stabilize the contribution rate.

CFO Cinde Rubaloff informed the Committee that they need to approve the asset mixes and related investment policy amendments to bring the EBRPD Retirement Plans in compliance with the asset mix.

Director Ayn Wieskamp questioned whether the District can make any additional extraordinary contributions in the future. CFO Rubaloff responded that the District can make additional extraordinary contributions as resources permit, which will allow the Plan to reach target funded ratio sooner, and allow “de-risking” of plan assets sooner.

AGM Collins added that Milliman has also modeled what would happen if the District should make extraordinary contributions.

CFO Rubaloff introduced Milliman representatives Bob Hellieson and Timothy Price, who presented to the Committee their EBRPD Asset-Liability Study for General and Safety Plans as follows:

- Most of the District’s current employees participate in CalPERS retirement plans, but a minor number of employees (16) and Board members (6) remain in the EBRPD Retirement Plans. As a result, the Plans are dominated by retirees with relatively few active employees.
- Over the coming decades, the Plans’ assets will need to invest in increasing conservative assets to ensure benefit payments are paid from plan assets and not annual contributions.
- The EBRPD Retirement Plan for miscellaneous employees represents nearly 90% of the overall liabilities. Thus Milliman used the funded status of that Plan as the basis for the proposed “de-risking” strategy.

The purpose of Milliman’s asset liability study was to provide stable annual contributions which need to be funded through operating revenues, to estimate time frame for 80% and 90% funding status, and to develop “de-risking” investment strategy to be implemented as 80% and 90% funding status are achieved.

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

	Mix 1 - current 63% funded status	Mix 2 - 80% funded status	Mix 3 - 90% funded status
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%

Notice the decrease in standard deviation (risk) as the investments move from equity to intermediate bonds.

It is estimated that at the stable contribution rate and current 5.75% discount rate, 80% funding will be reached in approximately 2021 and 90% in 2025. If additional extraordinary contributions are made (in addition to the \$3 million to be made in 2011), at the rate of \$2 million/year for the next 3 years, 80% funding status could potentially be reached in 2016 and 90% in 2021.

Recommendation: Moved by Director Ayn Wieskamp and Seconded by Director Whitney Dotson 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. Motion Approved.

Agenda Item No. 2
2012 Preliminary Budget

Budget Manager Pam Burnor presented a review on the status of the budget process and an overview of the 2012 preliminary General Fund budget.

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 recommended 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.

Budget Manager Burnor presented the FTE additions list and informed the Committee that the Foundation will be fully funding a Public Affairs Administrative Analyst. GM Bob Doyle noted that this added position will focus on fund raising.

Director John Sutter inquired how the Foundation contributed to the General Fund. CFO Rubaloff responded that in year 2012, the Foundation will have donated \$330,000 and that the Foundation also contributes to the Campership, Transportation and other park programs by paying for low income participants.

Director Sutter then wanted to know how much the Foundation raises in contributions. GM Doyle responded that the Foundation raises about \$1million in contributions and the District wants to see that number grow in the coming year.

Director Sutter questioned the category of services and asked for examples of a service. Budget Manager Burnor responded that the category covers outside services such as professional, consultation and contract for services such as tree or pest services.

Budget Manager Burnor continued that capital outlay/equipment budget line item increased 54.2% and includes a one-time budget request to fund General Fund vehicles and equipment.

The intra-District charges include a significant increase for the Major Equipment Replacement Fund. This fund underwent extensive review in anticipation of the 2012 budget process. GM Doyle commented that the District has been carrying replacement costs at low levels and has been under-budgeting. Director Sutter inquired if the increase was due to the District putting off equipment replacement purchases. CFO Rubaloff responded that equipment in this fund is replaced via a schedule, which is reviewed to determine if there is actually a need for a current replacement of a piece of equipment. Director, Ayn Wieskamp wanted to know what is considered a “big” purchase. CFO Rubaloff responded that the item cost must be greater than \$50,000.

AGM Collins commented that staff is beginning to plan for funding future replacement of infrastructure items, such as pump stations, lift stations, water systems, filter systems, and major buildings, etc. If some of these items were to stop functioning, there is the potential of park closures. AGM Collins emphasized the need to establish a new and separate “sinking fund.” GM Doyle added that if staff does not make plans to put enough aside over time, the District risks having a very big hit to the operating budget. This item will be incorporated in future budgets.

Budget Manager Burnor reported that excess appropriations over revenue is (\$5,442,043) and to balance the budget we will use 2010 excess revenue over expenditures and fund balance designated for “smoothing” of \$2,531,443.

Director Sutter inquired about the make-up of the “smoothing” fund. AGM Collins responded that in 2009 the Board designated \$9 million to be used to “smooth” the anticipated decrease in revenue due to assessed valuation decline. \$3.5 million of “smoothing” is budgeted for use in 2011. \$2.5 million is budgeted for use in 2012, leaving a balance of \$3 million for 2013.

AGM Collins noted that the personnel costs include the new AFSCME Local 2428 labor agreement and does not include the PA pending tentative agreement.

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.

Recommendation. None. This is an informational item only.

Agenda Item No. 3

Public Comment

There were no public comments.

Director John Sutter adjourned the meeting at 1:40P.M. The next meeting of the Board Finance Committee is scheduled for **12:45P.M. on Tuesday, November 15, 2011**, in the Board Room, Peralta Oaks.

Respectively Submitted

Robert W. Stagnaro
Confidential Secretary
Finance Department