

AGENDA
REGULAR MEETING
BOARD OF DIRECTORS

EAST BAY REGIONAL PARK DISTRICT

Tuesday November 6, 2018

C. BUSINESS BEFORE THE BOARD

6. COMMITTEE REPORTS

- a. Finance Committee Minutes and Recommended Actions from the Meeting of September 27, 2018 (Corbett)

Attendees

Board: Ellen Corbett, Dee Rosario and Whitney Dotson

Staff: Debra Aufer, Deborah Spaulding, Michelle Strawson O'Hara, Kim Balingit, David Sumner, Grace Mulvihill, Kelly Barrington

Speakers: Mitch Barker, Executive Vice President, PARS
Randall Yurchak, Vice President, HighMark Capital Management

Public: Chris Newey, AFSCME President

Committee Chair Ellen Corbett began the meeting at 12:30PM with the introduction of Committee members.

Agenda Item No. 1
Annual Report on Park District Pension Trust

Assistant Finance Officer Deborah Spaulding gave a brief overview of the East Bay Regional Park District's Pension Trust, which was established at the end of 2017, with the firm PARS administering the trust, and HighMark Capital Management managing the investment of the funds. In the first year, the District's Board of Directors approved a \$3.5 million contribution to the Trust. In 2018, an additional \$2 million was budgeted for Pension Trust contributions. The District's Board has committed to continuing to fund the Pension Trust each year, for ten years, with the intent to cap the District's CalPERS Miscellaneous Plan rates at 29%, and fund the amount above 29% from the Trust. As of December 31, 2017, the District's CalPERS Miscellaneous Plan unfunded liability was \$128 million, the largest liability in the District's financial statements.

AFO Spaulding introduced Mitch Barker, Executive Vice President of PARS.

Executive Vice President Barker shared that 3 companies bring the Pension Trust program to the District.

- PARS is the trust administrator
- US Bank is the trustee
- HighMark Capital is the investment management partner

The PARS' Trust is an IRS approved, tax-exempt, category 115 trust capable of funding both OPEB benefits and pension.

The District selected a moderately conservative investment strategy ,and has made a total contribution of \$4.5 million as of July 31st. The investment earnings have been almost \$50,000 to-date.

EVP Barker introduced Randall Yurchak, Vice President of HighMark Capital Management.

Vice President Yurchak shared how the District's investments are divided:

- 2/3 of the District's investments are in fixed income, which are more stable securities.
- 1/3 of the investments are in stocks, which are meant to grow the assets over time.

When the first \$3.5 million in funding for the Trust was received, 25% was invested in the first month and another 25% over the next three months. This was an agreed upon dollar-cost-averaging process. Over the last three months, the return has been about 2%. Since the Trust inception, the return has been 1.7%.

Three key themes describe performance of the trust since the beginning of the year:

- Earnings growth has been strong in the US Market.
- Tariffs in trade have impacted the international portion of the portfolio.
- Fixed income has been impacted by higher interest rates and inflation.

The Plan is actively managed, meaning mutual funds are invested in with the intent of exceeding benchmark returns. The funds are invested for a longer duration, so are more sensitive to higher interest rates. This has caused year-to-date performance to trend downwards. Stocks perform better in a rising interest rates environment. International investment returns have been less positive, because of tariffs and some withdrawal of stimulus from the European Central Bank.

Committee chair Ellen Corbett asked if international equity will even out over time and if we have an opportunity to adjust.

VP Yurchak stated that the expectation is for these issues will subside in the future. Earlier this year, investment in international equities was reduced, and the allocation to US Small Cap investments was increased, with the understanding that tax reform would benefit domestic companies.

Recommendation: This was an informational item only.

Agenda Item No. 2 **Beacon Economics Property Tax Forecast 2019-20**

Assistant General Manager /Chief Financial Officer Debra Auker introduced the Beacon Economics forecast. The District works with Beacon Economics every year to complete a five-year forecast of the changes in assessed valuation of Alameda and Contra Costa County. Property tax revenue is approximately 90% of the general fund and funds almost 97% of the General Fund expenditures. Budget planning is highly sensitive to the changes in this major funding source. Beacon Economics provides an independent perspective using national, state and regional information to provide the District with information. It is important to remember that property tax has been volatile, and is not always consistently growing.

The Beacon Economics forecast for growth in the second half of 2019 and into 2020 are:

- Alameda County 6.1% growth
- Contra Costa County 5.4% growth

Committee member Dee Rosario asked why the chart is showing a downward trend.

Assistant General Manager/Chief Finance Officer Debra Auker answered that assessed valuation growth is slowing. Actual assessed valuation of residential properties is slowing because of the shortage of housing. The US economy is in its 2nd longest expansion in history so it will hit a peak possibly toward the end of 2019. The District's outlook is good, property tax projections are strong and similar to last year, and we are keeping an eye on the future.

Committee chair Corbett asked if the high housing costs limiting job growth is a result of people not investing in additional job growth because it impacts the workforce. AGM/CFO Auker stated that her understanding is that there are job offers but people are unable to take them due to housing costs or limited amount of housing.

Committee chair Corbett inquired if the District should be looking at the trending line and planning for additional resources.

AGM/CFO Auker shared that the District is always looking long-term, and budgeting sustainably. The District has a reserve in place, with funds set aside for infrastructure replacement and long-term liabilities. Other revenue sources include:

- Landscape and Lighting District
- East County Assessment District

The District is always looking to new legislation and other sources to keep our level of service strong.

AFO Spaulding informed the committee that the District has a practice of using only half of expected revenue growth for on-going costs like staffing, and the remaining amount for one-time costs, which allows for a more conservative expenditure growth path.

Recommendation: None, this was an information item only.

Agenda Item No. 3 **EBRPD Annual Green Bond Report**

AFO Spaulding presented the first ever Green Bond report.

Last year \$80 million of WWV bonds were issued, \$50 million of which were certified Green Bonds, and of that \$30 million were made up a new issue subject to the Green Bond Reporting. The first annual report allowed the Finance Department to review how funds were being used and their benefits.

Green Bond Funds were allocated in four areas:

- Land Acquisition
- Habitat
- Sea Level Rise Protection
- Trails

The outside consultant reviewer, First Environment, gave the District a passing score on its reporting.

Three projects completed last year were studied to review greenhouse gas emissions savings.

- The Glenn Property Acquisition - Upland forest land that sequesters 18.5 tons of carbon dioxide per year.
- Roddy Ranch - 40 acres of grassland that sequesters 22 tons of carbon dioxide per year
- Carquinez Scenic Drive Trail - 9.2 tons of carbon dioxide emissions were reduced, related to green commuting.

AGM/CFO Auker stated that Green Bond framework was set up to say acquisition in general would go toward green purchases. There are many other areas we can draw on the Green Bond portion of our capital bonds.

Committee member Rosairo inquired as to how many parks were involved in the CO² estimations savings.

AFO Spaulding stated that the numbers were calculated based on a consultant report. Now that the process is known it can be done in more parks.

Committee chair Corbett asked if the District has been discussing the CO² emissions on a national level. She thinks it may be of interested at the National Park Conferences.

AGM/CFO Auker shared that the financial advisors present this information and the success the District has had with this program. The Annual Finance Officers Conference could be a venue to promote this.

Recommendation: None, this is an information item only.

Agenda Item No. 4
Open Forum for Public Comment

Chris Newey, President of AFSCME 2428 shared that the Union is happy to see \$1-2 million in contributions to the Pension Trust. Due to the 2018 unspent salary and wages in the General Fund likely climbing above \$10 million, the hope is the Board will consider policies and procedures to change the amount of contributions to the Pension Trust. With permanent position vacancy resting around 10%, the Union believes using those funds to plan for the future would be wise.

AGM/CFO Auker informed the committee that there were savings at the end of last year, some of which was salary savings, but the majority was due to shifting expenditures due to storm damage. The new team in Human Resources is focused on recruitments and getting vacancies filled as quickly as possible.

Agenda Item No. 5
Committee Comments

Committee member Rosario asked about the calendar year budget cycle versus a fiscal year, and if there is an advantage to going to a fiscal year.

AGM/CFO Auker shared that the annual budget cycle is only a disadvantage when looking at property tax revenue projections. Due to the core season of the District taking place in the summer months, a July- June fiscal year would cause an unbalance in understanding how the year went financially. To be more efficient, the District may switch to a two-year budget cycle, still having annual budgets, but looking at a longer timeframe overall.

Meeting adjourned the meeting at 1:15 PM.

Next meeting is October 24, 2018.

Respectfully submitted,

Grace Mulvihill
Confidential Secretary, Finance