AGENDA
REGULAR MEETING
BOARD OF DIRECTORS

EAST BAY REGIONAL PARK DISTRICT

Tuesday, March 23, 2010

C. BUSINESS BEFORE THE BOARD

7. BOARD COMMITTEE REPORTS

c. Finance Committee Minutes and Recommended Actions from the February 24, 2010 Meeting (Severin)

Attendees

Board:	Director Carol Severin (Chair), Ayn Wieskamp, John Sutter
Board Attendees:	Whitney Dotson (alt)
Staff:	Pat O'Brien, Dave Collins, Cinde Rubaloff, David Sumner, Pam Burnor, Deborah Spaulding, Bill Louie, Carol Victor, Larry Moss, Steve Myli, Sharon Corkin, Anne Scheer
Public:	Dan Walters (PAC Member), Tim Price and Bob Helliesen (Milliman, Inc.), Mitch Barker, Executive Vice President and Lauren Muschetto, Client Services Coordinator (PARS), and Andrew Brown, CFA, Senior Portfolio Manager (Union Bank).

7. East Bay Regional Park District Retirement Plans, Annual Performance Report

CFO Cinde Rubaloff gave a general overview of the District's General Employee and Sworn Safety Retirement Plans (formerly Transamerica). The EBRPD Retirement Plan Investment Policy (Policy) states that the Board Finance Committee shall receive a report on investment status and performance on an annual basis. The Policy also requires that the annual report include a detailed statement of expenses related to the operation of the retirement plans. In compliance with the Policy, CFO Rubaloff reported that the 2009 total plan operational expenses were $89,342. She noted that the District employs Milliman, Inc. as an independent investment advisor to assist with the review and analysis of the pension investments. Milliman, Inc. staff reports to the Finance Committee on investment status and performance as well as provides analysis of the quarterly investment report, reviewing asset allocations targets, monitoring portfolio manager performance, and quarterly communication with the CFO about status and recommendation.

CFO Rubaloff introduced Milliman staff members Tim Price and Bob Helliesen, who presented the Pension Investment Report for 2009.

Their report covered the following:

1. General Background: Until 1999, EBRPD funded with Transamerica in a "fixed dollar" contract. At that time, the District moved from the "fixed dollar" to Transamerica market priced investments. The consultant was hired in 2000 and outside managers were also added. In 2001 and again in 2006, the bulk of assets and participants transferred to CalPERS. Asset allocation was reviewed in 2004 and the fund was diversified.

2. Investment Performance Review 2009: Stocks were strong, partially recovering from severe weakness in 2008. S&P 500 was up 26.5% and EAFE (Europe, Australia, Far East) Index was up 32.5%. Bonds were also positive. The EBRPD total portfolio returned 21.0% gross of fees. There was a stronger manager performance that offset under-weighting in equities. Transamerica Equity trailed Growth Index and beat S&P 500. The Vanguard Value Index tracked its index. EuroPacific (International) equity outperformed EAFE. PIMCO funds and Transamerica Bonds performed well.

3. Investment Managers as of December 31, 2009:

<u>Stocks:</u>		<u>Target</u>	<u>Actual</u>
US Growth	Transamerica Equity Fund	24%	19.7%
US Value	Vanguard Value Index Fund	24%	23.0%
<u>International Bonds</u>:			
	EuroPacific Growth	5%	4.8%
Core Plus	PIMCO Total Return Fund	22.8%	33.2%
Core Plus	Transamerica Bond Fund	22.8%	15.6%
Liquidity	Transamerica "Fixed Dollar"	1.4%	3.6%

<u>Asset Allocation (current asset allocation targets were adopted in 2004)*</u>:

	<u>Target</u>	<u>Actual</u>
US Equity	48%	43%
International Equity	5%	5%
Bonds	47%	52%

*Asset allocation is due for review.

This was an informational item and no formal action was needed.

<u>1. Property Insurance Renewal And Renewal Values And Approval To Renew Property Insurance In An Amount Not To Exceed $300,000.</u>

<u>Risk Manager Larry Moss</u> reported on the District's Property Insurance, purchased through a public entity pooling program. The pooling program allows the District to participate in a program that is designed for the benefit of member public entities, including the District, instead of the benefit of a for-profit insurer.

Risk Manager Moss reported that all District buildings are included in the property program with the exception of piers, unless the pier is specifically included on the property list. The District can elect to include piers at an additional premium of $15,000. This is a relatively small amount of the total District budget and in relation to the total insurance premiums paid by the District. A discussion of whether to include piers or whether to continue to exclude insuring piers followed.

Risk Manager Moss reported that it is difficult to establish a value of District piers and that staff from Design and Construction believe that environmental regulations may not even allow a rebuild or repairs on some piers. The risk of loss to the piers is unclear; if there were to be damage done to a pier by a vessel, marine laws mandate reimbursement for damage by the owner, as experienced with the Cosco Busan tanker incident.

Director Wieskamp wanted to know if the Quarry Lakes pier is covered, as well as others at the various District lakes. Risk Manager Moss reported that lake piers are not covered because they are low in dollar value. The Quarry Lakes pier will need some further clarification as to value and will be added to the policy.

By motion of Director Wieskamp and seconded by Director Sutter, the Finance Committee recommended approval to Renew Property Insurance in an amount not to exceed $300.000 and to include piers of significant value in the coverage to the full Board.

2. Approval To Remove Slow Moving Inventory From Central Stores

Office Services Manager Steve Myli presented a listing of Central Stores inventory items that are considered to be slow moving or outdated, with a total value of $13,990.93. He noted that the Central Stores Advisory Committee, a cross-departmental group, reviews the Central Stores inventory products annually to determine what should be eliminated and has approved the list he presented.

CFO Cinde Rubaloff stated that the 2009 Board Operating Guideline revisions are unclear as to whether inventory write off valued at less than $25,000 is included in the $25,000 exception in section VIII, B 2 (whether or not Board approval is required for inventory write off items less than $25,000). The Board Operating Guidelines will be clarified during 2010 to eliminate the need for the Board to approve this type of low dollar item write off in future.

The Finance Committee reviewed the list of items for removal.

By motion of Director Sutter and seconded by Director Wieskamp, the Finance Committee recommended approval to remove slow moving inventory from the District's Central Stores warehouse valued at $13,990.93 to the full Board.

3. Revised Approval to Write Off 2009 Infrastructure Assets

Assistant Finance Officer Deborah Spaulding presented a revised listing of infrastructure assets to be considered for 2009 Write Off. These items were not included on the list presented at the January Finance Committee meeting. The list includes infrastructure items that were replaced or demolished:

1. Tilden - Steam Train Restroom.
2. Redwood – Fern Dell Huts.
3. Redwood – Canyon Meadow Chemical Toilet.
4. Crown Beach – Memory Lane Lift Station.
5. Point Pinole – Service Yard Office Building.

By motion of Director Wieskamp and seconded by Director Sutter, the Finance Committee recommended approval to direct Finance staff to prepare a report of the accounting adjustment for consideration and acceptance by the Board of Directors.

4. Authorization to Accept Stimulus II Funds and Appropriate District Matching Funds, District-Wide Pavement Rehabilitation

AGM of Finance and Management Services Dave Collins presented an overview of seven paving projects that were submitted to Caltrans for 2010 Economic Stimulus package funding. Caltrans reviewed all projects submitted and on February 9, 2010, informed the District that three projects (Alameda Creek Trail, Delta De Anza and Contra Costa Canal Trails) were ineligible for funding because of historical resource concerns that could not be addressed in the time allowed. The following four projects remain in consideration for funding:

1. Oyster Bay (1.7 miles)
2. Coyote Hills Bay View (2.4 miles)
3. Lafayette/Moraga Trail (6.2 miles)
4. Iron Horse Trail (1.9 miles)

AGM Collins informed the Committee that the District must be prepared to move forward rapidly and must be prepared to appropriate matching funds. Caltrans has not set the matching requirements but it is estimated that it could be up to 20% or $1,144,750. The program may only fund construction costs and not include staff resources needed to implement the projects.

AGM Collins continued that staff has reviewed available matching funds and funds currently committed to projects that could be redirected to determine possible match sources as follows;

1. Oyster Bay: $112,000 - source Unappropriated AA for Oyster Bay
2. Coyote Hills Bay View: $158,250 - source Unappropriated WW for Coyote Hills
3. Lafayette/Moraga Trail: $748,000 - source Unappropriated WW Contingency
4. Iron Horse Trail: $126,500 - source Unappropriated WW Contingency

The Committee discussed changing the funding sources of matching funds for the two trails (Lafayette/Moraga and Iron Horse) from WW Contingency to Fund 220 Two County Regional Trails LLD.

By motion of Director Wieskamp and seconded by Director Sutter, the Finance Committee recommended approval to accept the Appropriation of Funds to the Stimulus II Projects with funding changes for the two trails (Lafayette/Moraga and Iron Horse) from WW Contingency to Fund 220 Two County Regional Trails LLD to the full Board for approval.

5. 4th Quarter Investment Report

CFO Cinde Rubaloff presented a review of the investment report as of December 31, 2009. The total of all cash and investments was $276,543,431. The report is in accordance with State law and the District's Investment Policy. Pooled cash managed by the CFO/Controller had increased by $14 million from the prior quarter, the increase was due to December property tax receipts of approximately $47 million and other revenue of $16 million, less approximately $28 million in operating expenditures, an additional $13 in capital expenditures and the $8 million payoff of the CalPERS side fund.

CFO Rubaloff reported that pooled cash managed by the CFO/Controller is approximately $6 million less than 2008 due to the elimination of the helicopter escrow account, the payoff of CalPERS side fund loan, and timing of capital expenditures. Funds managed by trustees have increased by $101 million from the prior quarter due to the receipt of:

1. 2009 Measure WW bond project proceeds of $80 million.
2. 2009 Measure WW capitalized interest proceeds of $6 million.
3. December debt service property tax receipts of $15 million.

The investment of the District's cash and investments was budgeted in 2009 to generate $3 million of interest revenue. Due to the decline in interest rates, 2009 investment revenue has decreased by $2.4 million from the 2008 amount (from $5.9 million to $3.5 million), but will still surpass the budgeted amount. Annualized investment returns for 2009 were 0.43% for short-term and 3.79% for mid-term.

CFO Rubaloff noted the District's quarterly returns against the benchmark returns. The short-term benchmark is the US 91 day T-bill, and the mid-term benchmark is the ML 1-3 year UST index. The District continued to outperform both benchmarks. The District's quarterly short term earning rate was 0.11%, 0.05% greater than benchmark. The District's quarterly mid-term earning rate was 0.95%, 0.93% greater than benchmark.

By motion of Director Wieskamp and seconded by Director Sutter, the Finance Committee recommended approval to direct staff to prepare the 4th Quarter Investment Report for acceptance by the Board of Directors.

6. OPEB Annual Performance Report

CFO Rubaloff introduced Public Agency Retirement Services (PARS) representatives Mitch Barker and Lauren Muschetto and Union Bank representative Andrew Brown. CFO Rubaloff informed the Committee that the District's Other Postemployment Benefit (OPEB) Trust was established in 2007 and is administered by PARS. Plan assets are invested with Union Bank as trustee and High Mark Capital Management is the investment manager. Director Sutter asked if the District has reduced contributions because of budget cuts. CFO Rubaloff responded that the District has not reduced any contributions, which are based upon the District's actuarially determined liability.

PARS Representative Mitch Barker gave a general trust overview that included:

1. Program Overview.

2. Plan Review.
3. Investment Review.

Mr. Barker reported that the District is using the moderate allocation range. The moderate allocation allows the asset allocation range on the stock portion to fluctuate between 40% to 60%, the bond fixed income portion to fluctuate between 40% to 60%, and the cash portion to range between 0% to 20% of the porfolio.

Union Bank Representative Andrew Brown, CFA gave a presentation that included the following:

1. Asset Allocation - the moderate allocation and the current allocation is 53%, stocks are 42%, and 5% are cash/money market.

Director Sutter inquired if investments are all in funds and stocks. Mr. Brown responded that investments are in funds only. Director Sutter asked if the District is in a pool of funds. Mr. Brown answered that the District is in a pool and has a percentage of the pooled fund.

2. Performance for 2009 is net of fees 20.9% vs. a benchmark of 16.6%. The benchmark is comprised of 45% Barclays Aggregate Index (fixed income index) and 35% S&P 500 Index, 7.5% Russell 2000 Index, 7.5% MSCI EAFE Index, AND 5% 3 Month T-Bill.

3. Looking forward to 2010, High Mark Capital Management has a very positive outlook towards the economy. The economy is projected to recover at 3% GDP rate of growth and carrying over to year 2011. Unemployment is projected to be in the 9.4% range. Inflation is the number one concern for the calendar year and it is projected to be in the low 2%. An area of concern that can effect the recovery is how the government stimulus package will be paid for - taxes will most likely increase to help pay for it. There is a need to be watching the banking industry; larger banks should be stable but smaller community-size banks are going to be under pressure in 2010.

Director Wieskamp commented that small banks are failing because they have invested in some bad home mortgages and commercial properties. General Manger Pat O'Brien commented that roughly 24% of District revenue comes from property taxes that are commercially based and it appears that commercial property foreclosures would be seen at some point.

4. The strategy for 2010 includes looking at portfolio configuration and looking for more growth. In looking at Mid-Caps investment allocation, Treasury Inflated Protected Security (TIPS), it is buying a US Treasury with a CPI modification to insulate against inflation.

Director Ayn Wieskamp asked for further explanation of TIPS. Mr. Brown explained it as buying a US Treasury and in theory it is a very safe security. Interest rates go up, bond prices go down and the Treasuries will also go up/down. TIPS provide protection against inflation. As an example, if CPI is measured to be at 6%, on a semi-annual basis the District will receive a 3% increase to compensate for buying a bond that did not keep up with inflation.

Benefits Manager Bill Louie asked for the District's actual annual rate of return. Mr. Brown responded that for 2009 the pool is 20.9% and the District will be close to 20.9%. From inception to date it is a minus -2.7%.

Director Sutter asked whether the funds are untouchable by the District and whether it has the right to reclaim them, and what, if at some point in time, the income was higher than actually necessary. CFO Rubaloff responded that staff would not withdraw funds but would reduce its contributions based upon the actuarial study. Mr. Brown emphasized that GASB45 requires that the District receive an actuarial evaluation every two years. The evaluation will take into consideration the number of new retirees, whether or not the District changed its health plan policy, and what the rate of return is on investments. The evaluation will determine the new District contribution rate.

Union 2428 Representative Sharon Corkin asked about the portion of the accumulated assets in the OPEB Fund which are the result of contributions vs. the portion which is the result of return on investment. CFO Rubaloff noted that the information is contained in the handout reports and shows the contributions and distributions.

Union 2428 Representative Corkin inquired under what circumstances the District could take monies out of the fund. Mr. Barker answered that the District could take monies from the fund to pay retiree health premiums and general expenses such as actuarial reporting expenses.

Union 2428 Representative Corkin commented that the contribution rate seems extremely steep and wanted to know at what point it will be reduced. Mr. Brown responded that the rate is determined by the actuarial evaluation and the new Annual Required Contributions (ARC). CFO Rubaloff added that when the investment market rate of return is high, the District contribution rate will go down and the reverse will also be true when market rate of return is low. She noted that the District is also trying to "smooth" it or spread the contribution over a period of time.

Union 2428 Representative Corkin asked if there were a target rate of return. CFO Rubaloff responded that the target rate of return is reported in the actuarial report and is used to determine the District's contributions. The District's investment approach is "moderate", not high nor excessively high risk, and thus not extremely high or low returns.

Mr. Barker added that the District is making monthly contributions and the result is dollar cost averaging, which is a moderate approach. Director Wieskamp commented that the District has one well in a short period of time and is protecting the employee benefits.

This was an informational item and no formal action was needed.

8. Public Comments:

There were no Public Comments; the meeting was adjourned at 2:55PM