

AGENDA  
REGULAR MEETING  
BOARD OF DIRECTORS

EAST BAY REGIONAL PARK DISTRICT

Tuesday, July 25, 2017

D. BUSINESS BEFORE THE BOARD

9. COMMITTEE REPORTS

- c. Finance Committee Minutes and Recommended Actions from the Meeting of May 24, 2017 (Wieskamp)

Attendees

Board:

Directors Ayn Wieskamp, Whitney Dotson and Colin Coffey

Staff:

Debra Auker, Robert E. Doyle, Deborah Spaulding, Pam Burnor, David Sumner, Michelle Strawson-O'Hara, Xiaoning Huang, Ruby Turnor, Jamie LeBow, Nadine Vargas, Monica Alvarez-Selles, Alicia Gonzales, Susan Gonzales, Erika Corral

Speakers:

John Bartel, Bartel Associates; Erica Armstrong, ICMA; Monique Spike, PFM Asset

Public:

Rick Rickard

Committee Chair Ayn Wieskamp began the meeting at 12:36 PM with the introduction of committee members.

**Agenda Item No. 1**  
**Pension Trust Proposal**

Assistant Finance Officer Deborah Spaulding reported on steps that the District is taking in response to increasing CalPERS pension costs. In late 2016, the CalPERS Board voted to reduce the discount rate (the assumed rate of return on investments) from 7.5% to 7% for pension investments. Reducing the discount rate will reflect more realistic future investment returns, however it also results in the District's pension costs doubling in the next ten years, as well as increasing the District's unfunded pension liability.

The following table shows projected annual employer contribution costs (provided by Bartel Associates). The annual costs for the Miscellaneous Plan will increase from \$9.7 million to \$19.3 million by 2025/26. The Safety Plan costs projected to increase from \$2.1 million to \$4.7 million.

(costs in \$ million)

Year	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Misc.	\$9.7	\$10.5	\$11.8	\$13.1	\$14.4	\$15.6	\$16.7	\$17.6	\$18.5	\$19.3
Safety	\$2.1	\$2.2	\$2.6	\$3.0	\$3.3	\$3.7	\$3.9	\$4.2	\$4.4	\$4.7

Assistant Finance Officer Spaulding continued to report that staff have researched several approaches to mitigate these increases:

- Establish an Irrevocable Pension Trust – set aside up to \$12.5 million over a 10-year period that will be drawn upon in future years, when pension costs increase, fund can only be used for pension costs.
- Pay off CalPERS “amortization bases” – up to \$3.5 million in 2017 to reduce unfunded liabilities which should reduce future PERS contribution rates.
- Pre-fund CalPERS unfunded liability – pre-fund the annual CalPERS required payments for unfunded actuarial liabilities.

The Pension Trust was preliminarily discussed with the Board Finance Committee in September 2015 and October 2016 and is now being recommended by staff. Staff sent out an RFP for third party trust administrators/investment managers to establish an irrevocable pension trust and selected Public Agency Retirement Services (PARS). Noted in discussion, this trust is currently intended to be used for the Miscellaneous Plan. Staff has analyzed this model for the Safety Plan, but it does not provide the same benefits.

Committee chair Ayn Wieskamp asked if staff is planning on a better return rate. Assistant Finance Officer Spaulding responded yes, the actuaries projections utilize a 6% return for the Pension Trust investments.

The table below summaries the proposed Pension Trust contribution costs and return on investments:

FUNDING YEAR	CONTRIBUTION TO TRUST	FUNDS USED	Total Fees	Expected ROI
2017 - Yr 1	\$ 3,500,000	\$ -	\$ 21,000	\$ 192,500
2018 - Yr 2	\$ 2,000,000	\$ -	\$ 32,225	\$ 302,500
2019 - Yr 3	\$ 2,000,000	\$ -	\$ 42,098	\$ 412,500
2020 - Yr 4	\$ 1,000,000	\$ 1,000,000	\$ 41,633	\$ 412,500
2021 - Yr 5	\$ 1,000,000	\$ 1,500,000	\$ 38,675	\$ 385,000
2022 - Yr 6	\$ 1,000,000	\$ 2,000,000	\$ 33,348	\$ 330,000
2023 - Yr 7	\$ 500,000	\$ 2,000,000	\$ 25,187	\$ 247,500
2024 - Yr 8	\$ 500,000	\$ 2,000,000	\$ 16,932	\$ 165,000
2025 - Yr 9	\$ 500,000	\$ 2,000,000	\$ 8,555	\$ 82,500
2026 - Yr 10	\$ 500,000	\$ 2,000,000	\$ -	\$ -
<b>TOTAL</b>	<b>\$ 12,500,000</b>	<b>\$ 12,500,000</b>	<b>\$ 259,651</b>	<b>\$ 2,530,000</b>

General Manager Robert E. Doyle noted the Pension Trust allows the Board the authority and flexibility to control the trust fund and makes decisions through staff recommendations.

Assistant Finance Officer Spaulding introduced John Bartel, President of Bartel and Associates to report on the District's pension liabilities and the option of creating a pension trust.

Mr. Bartel presented pension options in a slide presentation.

Committee member Colin Coffey requested information on "PARS". Mr. Bartel explained PARS is a private sector for profit entity, they primary work with public sector entities and have been in business over 25 years.

Committee member Coffey asked if the District's assets will remain with the District or in a pool of funds. Mr. Bartel advised that the District's assets could be pooled for investment purposes, or the District can make specific investments. Assistant General Manager/Chief Finance Officer Debra Auker added that PARS specializes in the IRS Section 115 Trust and noted she will provide a copy of the PARS proposal to committee member Coffey.

Committee member Coffey requested information on how pension trusts generate better returns than the District's ordinary investments. AGM/CFO Auker advised the California Government Code allows for local governments to invest only in instruments that are very liquid, with low risk and low return. However, qualified retirement trusts, as codified by the Internal Revenue Service code have different restrictions on how assets can be invested, which are not as restrictive and provide for higher investment returns.

Committee member Coffey requested clarification that the District's plan is to put funds into the trust for 10 years and stabilize the Miscellaneous Plan pension status in terms of unfunded liability and any funds left over in the pension trust can be used to future contributions. Mr. Bartel confirmed, adding that the majority of use would be over the next decade.

Committee member Coffey commented it is a wonderful plan and glad the District can do something very substantive to protect the pension funds for the District's employees and retirees.

Committee member Coffey suggested to share the plan in detail with AFCSME (District's union employees). General Manager Doyle agreed, noting everyone should understand protecting the retirement funds is important. Staff is not only trying to be responsible to the employees but also the public.

Committee chair Wieskamp requested more information on PARS and agreed putting money into the Trust now, while the District has the funds to prepare for the future, is a good idea.

AGM/CFO Auker read an email supporting the Pension Trust from retirees Ted Radosevich and Dave Collins to put into the record.

Emailed date 5/23/17 from Ted Radosevich:

"I strongly support the recommendation to establish a Pension Trust, which is vital to assure the financial soundness of the Park District's retirement plan in CalPERS. Indeed, my only concern is that the proposed funding recommended in years 4-6 and 7-10 is too low. I think the District has the funding ability, and the Board the long-term vision, to increase funding by \$500,000 in each of these later year. I note the following:

1. The District Board has historically shown great long term vision, political courage and financial wisdom to fund the District's pension plan at proper and prudent amounts. This Board has resisted the "easy out" of kicking the can down the road, and saddling future Boards and employees with an underfunded pension plan. This Pension Trust is another opportunity to "do the right thing" by funding at levels that are needed.
2. Our outside actuary John Bartel has for many, many years provided excellent, realistic and much more predictive estimates of future earnings and costs than CalPERS. His judgment and advice is never tainted by short term political considerations. His advice on funding a Pension Trust is a well-considered and prudent approach for the District.
3. Our Parks are forever. If our citizens in 1934, during the Great Depression, could create our District and impose new taxes, this Board can -- and I have no doubt it will -- take needed steps in 2017 to assure our pension plan is well funded 20, 30 and 50 years from now.

I strongly urge you to support creation of the Pension Trust, and consider even greater funding of it. Respectfully submitted, Ted Radosevich"

**Recommendation: Motioned by Colin Coffey and seconded by Whitney Dotson that the Finance Committee recommends to the full Board of Directors to review reports and the recommendations and direct staff to prepare the recommendations. Motion approved.**

## **Agenda Item No. 2**

### **March 31, 2017 Investment Report and Portfolio Review**

Assistant Finance Officer Deborah Spaulding presented the March 31, 2017 Investment Report and informed the Committee the total of the District's cash and investments as of March 31, 2017, was \$268,077,745, a decrease from last quarter mainly due to the timing of receipt of property taxes. Bond funds held by trustee were \$57,091,252.

- Pooled cash/investment managed by CFO was \$210,986,494
- The 2017 investment earnings budget total \$788,814.
- Banking and investment fees are consistent with prior years, totaling \$24,586.

Graph handouts included comparative investment information, Districts' invested funds, information on securities held by PFM, District cash and investment by type (not managed by PFM) along with Investment Performance Review from PFM.

Assistant Finance Officer Spaulding introduced Ms. Monique Spyke, with PFM Group, the District's investment management firm.

PFM Monique Spyke initially presented the investment results for the first quarter of 2017, giving an overview of the market environment in which invested. PFM expects the economy to continue to improve, interest rates will rise (as market awaits clarity of the Trump administration proposed policies) and PFM will manage the portfolio duration close to the benchmark and continue to look for safety in adding to the portfolios return.

Ms. Spyke presentation included a forecast for 2017 market conditions, which included increase in interest rates and impact on the market value of the District's investment portfolio.

**Recommendation: Motioned by Whitney Dotson and seconded by Colin Coffey that the Finance Committee recommends to the full Board of Directors approval to review the March 31, 2017 Investment Report. Motion approved.**

### **Agenda Item No. 3**

#### **Amend Current Administrative Agreement with ICMA-RC for Deferred Compensation**

Benefits Manager Monica Alvarez-Selles reported that ICMA-RC has been the District's benefit provider to administer the District's 401 and 457 plans since 2007. Since inception with ICMA participation has increased to 827 and investments increasing to \$84.8 million.

Staff is recommending to extend the contract with ICMA (currently on a year-by-year contract) for five years, with the understanding that another RFP will not be done. Staff will negotiate with ICMA regarding lowering the baseline rate to 0.12% or lower. In extending the contract, ICMA-RC will take steps to reduce costs and make an "informal" presentation on cost structures with tiers.

Another recommendation from staff is to move the District's current mutual funds from the R5 to the R9 share class. This will reduce costs to participants which in turn should encourage increased participation in the plan.

Lastly, staff will form an advisory committee to oversee the continued administration of the plan. The committee would ensure plan goals are met and help mitigate fiduciary liability of the 457 Deferred Compensation Plan.

Committee member Coffey asked for differences between the R5 and the R9. ICMA Erica Armstrong explained the different share classes and how this change would benefit District employees: The change in the share class would reduce the plan administration costs, along with minimizing revenue sharing, which ultimately would be more efficient and cost-effective for employees.

Email read from Ted Radosevich dated 5/23/17

“As a proud, but now retired 25-year Park District employee, I strongly support staff’s recommendation to extend and improve the deferred compensation program with ICMA.

By extending the ICMA contract 5 years, and negotiating a fee reduction to 12 basis points annually, staff will save District Plan members tens of thousands of dollars annually in administrative costs that now come directly out of mutual fund earnings. The new proposed contract will still fairly compensate ICMA, while also affirming this Board’s fiduciary obligations to its employees.

Also, the agreement of ICMA and the District to move several funds into less expensive “R9” mutual fund classes will further save money for both current employees and retirees, who are investing for long term retirement security.

Finally, the proposal to create a committee to look at the Deferred Compensation Plan with ICMA to further reduce costs and provide needed services is excellent.

I have had an opportunity over the last many months to work with ICMA and District staff in both Finance and HR on these issues and am impressed with this effort. Please support this staff recommendation.”

**RECOMMENDATION: Motioned by Whitney Dotson and seconded by Colin Coffey that the Finance Committee recommends to the full Board of Directors approval to amend current administrative agreement with ICMA-RC to Obtain Reduced expenses for plan participation in the Deferred Compensation Plans offered by the District. Motion Approved.**

#### **Agenda Item No. 4**

##### **Accounting Closure for Completed Project**

Administrative Analyst Nadine Vargas presented the annual process to formally close completed projects in the District’s financial records. Project closure information was solicited from project managers. Before closure was completed, projects with revenue surplus or shortages were trued up, and the balance of excess funding will be returned to the original source. The District’s practice is to utilize the most restricted project resources first, in the following order: grants, then bonds, then General Fund.

#### **Development Projects**

Administrative Analyst Vargas proceeded to report on a total of sixteen capital development projects which were recommended for closure. Based on the proposed closures, the net impact will be as follows:

- \$191,623.10 returned to the General Fund
- \$122,420.62 returned to Measure AA
- \$234,397.01 returned to Measure WW
- \$3,412.00 returned to the Regional Park Foundation

### **Land-related Projects**

A total of twenty-two land-related projects were recommended for closure. The list included both acquisitions and safety/security-type projects. Based on proposed closures, the net impact will be as follows:

- \$593.49 returned to General Fund
- \$1,033.82 returned to Measure AA allocation areas
- \$195,847.49 returned to Measure WW allocation areas
- \$2,824.74 transferred between projects

### **Other Than Asset (OTA) related projects**

A total of sixteen OTA projects were recommended for closure. Adjustments are required for the following fund sources:

- \$16,616.22 return to General Fund
- \$7,396.84 return to Measure AA
- \$5,069.32 return to Measure WW
- \$0.43 return to Measure CC
- \$16,749.00 return to Major Infrastructure Renovation and Replacement

**Recommendation: Motioned by Colin Coffey and seconded by Whitney Dotson that the Finance Committee recommends to the full Board of Directors approval to review proposed closures, budgetary adjustments. Motion approved.**

### **Agenda Item No 5.**

### **Fourth Quarter 2016 General Fund and Other Governmental Funds Unaudited Financial Reports**

Assistant Finance Officer Michelle Strawson O'Hara reported on the General Fund and Other Governmental Funds Financial reports combining budget and expenditure information.

As of December 31, 2016, the District's financial activities are as expected when compared to prior year and to the current year budget.

### **General Fund Revenues & Expenditures as of December 31, 2016**

Both revenues and actual expenditures are on track for the year

<b>General Fund</b> <i>(in millions)</i>	Budget 2016	Actual thru 12/31/16	variance	% of Budget Complete
Revenue	\$ 128,535,997	\$ 137,456,904	\$ (8,920,906)	106.9%
Expenditures	135,543,172	126,454,421	9,088,751	93.3%
net change in Fund Balance	\$ (7,007,175)	\$ 11,002,482	\$ 18,009,657	

The report attachments provided additional information on the General Fund Revenue and Expenditures and commenting on areas with revenues and expenditures 10% higher or lower than prior year (with explanation) and summarized financial information for all other governmental funds.

**Recommendation: None. This is an information item only.**

**Agenda Item No. 6**  
**2016 Audit Update**

Assistant Finance Officer Michelle Strawson O'Hara reported the District is working with the CPA firm of Vavrinek, Trine, Day and Company (VTD) to complete the District's 2016 financial audit and prepare the 2016 Comprehensive Annual Financial Report (CAFR). Based on their review, the District is expecting a "clean" audit opinion with no exceptions or qualifications expressed.

The draft CAFR will be presented by staff at the June 26, 2017 Park Advisory Committee Meeting and again by audit partner AJ Major and staff to the Board Finance Committee at the June 28, 2017 meeting. The final reports will be presented to the Board of Directors for approval at the July 5, 2017 Board meeting.

**Recommendation: None. This is an informational item only.**

**Agenda Item No. 7**  
**2018 Budget Calendar**

Budget Manager Pam Burnor reported that the budget calendar is presented to the Finance Committee annually. The purpose of report is to provide the Finance Committee with an overview of the District's budget schedule anticipated for the 2017 budget process.

**Board Workshops**

The budget planning process began earlier this year, with the first Board Workshops in February and the last one in June to address capital, land acquisitions and trail projects.

**Budget Preparation Activity Highlights, by month:**

**June** – Verify the level, location and funding source of District employees.

**July** – Update Division/Department service objectives using performance measure reporting format. Determine need for current mid-year adjustments

**August** – Finance distributes base budget to departments and instruction related to budget requests. Budget workshops are conducted to aid budget preparers.

**September** – Revenues are estimated to establish the base budget revenue available for appropriation in 2018. The General Manager and AGM Group discuss budget requests

**October to December** – Present proposed budget to Finance Committee in November and to Board of Directors and public during two public sessions in December. Budget adopted after second public hearing.

**February 2018** – hard copy budget documents, including Operating Project and Budget Brief will be distributed to the Board and AGMs and the electronic version will be posted on the District's website at the same time.

**Recommendation: None. This is an informational item only.**

### **Agenda Item No. 8**

#### **Update on District-wide Banking Contract Selection**

Assistant Finance Officer Spaulding presented an update on the District-wide banking contract selection. Staff issued a RFP for District-wide banking services. Of the four banks that responded Bank of the West, JP Morgan and US Bank were interviewed on May 19<sup>th</sup>. Finance staff will provide its selection of the new banking service provider at the July 5<sup>th</sup> Board Meeting.

**Recommendation: None. This is an informational item only.**

### **Agenda Item No. 9**

#### **Open Forum for Public Comments**

No public comment.

### **Agenda Item No. 10**

#### **Committee Comments**

The next Finance Committee meeting is June 28, 2017

Meeting adjourned 2:25 p.m.

Respectfully submitted,

/s/ Connie Swisher  
Confidential Secretary, Finance