East Bay Regional Park District

EAST BAY REGIONAL PARK DISTRICT
BOARD FINANCE COMMITTEE
AGENDA STAFF REPORT

DATE	November 25, 2024
TITLE	Recommendation to the Board of Directors to Implement a "Fresh Start" for the CalPERS Miscellaneous Pension Plan
DIVISION	Finance and Management Services
FROM	Deborah Spaulding, Assistant General Manager of Finance and Management Services/CFO
APPROVED	Sabrina Landreth, General Manager

RECOMMENDATION

Staff requests that the Board Finance Committee review, discuss and direct staff to submit to the Board of Directors for approval a recommendation to implement a "Fresh Start" for the CalPERS Miscellaneous Pension Plan and to draw down from the Pension Trust for a one-time CalPERS Miscellaneous Pension liability payment.

BACKGROUND

The Park District participates in the California Public Employees' Retirement System (CalPERS). Annually, CalPERS releases pension valuation reports for each of its member agencies, which provide information regarding the funded status and employer contribution requirements. The most recent valuation report for the Park District's CalPERS Miscellaneous Plan (Plan) showed an unfunded actuarial liability (UAL) of $142.9 million as of June 30, 2023. The UAL is the amount of funding needed, but not yet saved, to pay pension benefits for current and retired employees. Over the past ten years, the UAL for the Plan has more than doubled, from $65.9 million to $142.9 million. This increase is a result of investment losses experienced by CalPERS in prior years, a reduction in the discount rate to account for future lower expected investment earnings, as well as an increase in the number of Park District employees. The changes in the funded status and contributing factors can be seen in the table on the following page, which CalPERS includes in its annual valuation report. Over the last 10 years, the Plan's Funded Ratio has decreased, from 73.9% in 2014 to 70% in the June 30, 2023 valuation.

Valuation Date	Accrued Liability (AL)	Market Value of Assets (MVA)	Unfunded Accrued Liability (UAL)	Funded Ratio	Annual Covered Payroll
6/30/2014	$252,150,110	$186,239,902	$65,910,208	73.9%	$37,402,792
6/30/2015	267,915,837	192,217,850	75,697,987	71.7%	39,029,154
6/30/2016	287,269,550	194,195,285	93,074,265	67.6%	40,335,498
6/30/2017	307,448,935	217,227,119	90,221,816	70.7%	43,027,027
6/30/2018	339,754,161	236,539,887	103,214,274	69.6%	46,123,996
6/30/2019	361,809,012	253,241,078	108,567,934	70.0%	48,375,588
6/30/2020	382,412,499	267,829,604	114,582,895	70.0%	53,237,711
6/30/2021	412,842,136	333,373,682	79,468,454	80.8%	54,984,728
6/30/2022	446,869,527	311,068,677	135,800,850	69.6%	61,307,851
6/30/2023	476,718,295	333,752,531	142,965,764	70.0%	67,309,818

In September 2017, the Park District established an Irrevocable Section 115 Pension Trust Fund (Trust).

From 2017 through 2022, funds were contributed to the trust in preparation for known increases in required UAL Payments. The funds from the Trust have been drawn down during the period of 2021 to 2025 to offset the costs of the UAL Payment (see table below). As of October 2024, the Trust has a balance of approximately $6.825 million.

Fiscal Year	2020-21	2021-22	2022-23	2023-24	2024-25
UAL Payment	$ 9,874,706	$11,385,055	$12,647,040	$12,688,322	$15,213,167

ANALYSIS

The following chart comes from the most recent CalPERS Miscellaneous Plan pension valuation report, and it shows the expected UAL Payment in the coming five years. When the UAL Payment amounts below are compared to the table above, it can be seen that payments for the CalPERS Miscellaneous Plan UAL are expected to decrease in the coming years.

	Required Contribution	**Projected Future Employer Contributions (Assumes 6.80% Return for Fiscal Year 2023-24 and Beyond)**				
Fiscal Year	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
Normal Cost %	10.24%	10.0%	9.8%	9.7%	9.5%	9.3%
UAL Payment	$16,987,448	$11,131,000	$11,769,000	$13,218,000	$13,476,000	$13,680,000
Total as a % of Payroll*	33.47%	24.8%	25.1%	26.3%	26.0%	25.6%

CalPERS also provides longer-term projections for the UAL in the annual pension valuation report. Staff has reviewed this pension valuation report with the CalPERS Senior Actuary and with the Park District's independent actuarial firm, VIA Actuarial Solutions. Based on those reviews and independent analysis, staff is recommending implementing a "Fresh Start" which would reset the amortization schedule over a shorter term and establish a consistent future payment base. This Fresh Start will result in savings and stabilization of future contributions. This can be compared to amortizing a mortgage over a shorter time period, which results in interest rate savings.

To further reduce the pension liability and future contributions, staff recommends utilizing the remaining $6.8 million Trust balance as a one-time payment to reduce the UAL. This additional contribution combined with a "fresh start" amortization over a recommended14 year term, would result in the Park District reducing its total interest payments by $18.5 million.

When determining the new amortization term, staff compared various scenarios of considered future payment amounts and selected the level that was determined to be sustainable for future budgets. The 14-year term with fixed annual payments (starting in 2026-27) of $12.7 million provided the best balance between interest savings and a manageable baseline level of UAL payments.

Fresh start savings comparisons		
Assumes $6,825,000 one-time (ad hoc) payment in December 2024		
Fresh start term	**Total Savings over term**	**Fixed Annual Pymt after 25-26**
10	37,867,749	15,831,000
11	33,150,634	14,830,000
12	28,352,330	14,001,000
13	23,481,024	13,304,000
14	**18,523,280**	**12,712,000**
15	13,495,252	12,203,000

FISCAL IMPACT

Implementation of CalPERS Miscellaneous Pension Plan "Fresh Start" and a CalPERS Miscellaneous Pension Liability payment from the Pension Trust would result in total interest savings of over $18.5 million over 14 years and would help stabilize contribution rates in future years.

ATTACHMENTS

A. Excerpt from CalPERS Miscellaneous Plan Annual Valuation Report as of June 30, 2023