

15. Recommendation to Implement a “Fresh Start” for the CalPERS Miscellaneous Pension Plan and Approve Pension Liability Payment from the Pension Trust



**EAST BAY REGIONAL PARK DISTRICT
BOARD OF DIRECTORS MEETING
AGENDA STAFF REPORT**

DATE December 17, 2024

TITLE Recommendation to Implement a “Fresh Start” for the CalPERS Miscellaneous Pension Plan and Approve Pension Liability Payment from the Pension Trust

DIVISION Finance and Management Services

FROM Deborah Spaulding, Assistant General Manager of Finance and Management Services

APPROVED Sabrina Landreth, General Manager 

RECOMMENDATION

The General Manager recommends that the Board of Directors approve 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 East Bay Regional Park District (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 required contributions for the coming year. The most recent valuation report for the Park District’s CalPERS Miscellaneous Plan (Plan) showed an unfunded accrued 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 primarily the 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 beginning in 2026-27.

Fiscal Year	Required Contribution	Projected Future Employer Contributions (Assumes 6.80% Return for Fiscal Year 2023-24 and Beyond)				
		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 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 \$6.825 million Trust balance as a one-time Additional Discretionary Payment (ADP) to reduce the UAL. This additional contribution combined with a "fresh start" amortization over a

recommended 14-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		
<i>Assumes \$6,825,000 one-time (ad hoc) payment in December 2024</i>		
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 a CalPERS Miscellaneous Pension Plan “Fresh Start,” combined with the use of \$6.825 million as an Additional Discretionary Payment from the Pension Trust, would result in total interest savings of \$18.5 million over 14 years. In order to achieve these savings and incorporate the cost reduction into the 2025-26 CalPERS fiscal year, the payment must be made by December 31, 2024. This would reduce the Pension Trust balance to close to \$0. Any balance remaining in the Trust after making the ADP would be used to reimburse the Park District for CalPERS Miscellaneous pension payments in 2025, and the Trust would then be closed.

The 2025 Proposed Budget includes the expectation that the CalPERS UAL amount will be reduced by \$3 million.

ATTACHMENTS

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



**EAST BAY REGIONAL PARK DISTRICT
RESOLUTION NO. 2024 – 12 -
DECEMBER 17, 2024**

**RECOMMENDATION TO IMPLEMENT A “FRESH START” FOR THE CALPERS
MISCELLANEOUS PENSION PLAN AND APPROVE PENSION LIABILITY
PAYMENT FROM PENSION TRUST**

WHEREAS, the California Public Employees’ Retirement System (CalPERS) releases pension valuation reports every August for each of its member agency and the most recent annual valuation report for the East Bay Regional Park District’s CalPERS Miscellaneous Plan as of June 30, 2023 reports an unfunded actuarial liability (UAL) of \$142.9 million; and

WHEREAS, In September 2017, the East Bay Regional Park (Park District) established an Irrevocable Section 115 Pension Trust Fund (Trust) which was intended to stabilize future CalPERS Miscellaneous Plan pension costs. Funds were contributed to the trust over several years in preparation for expected increases in required UAL Payments during the period of 2021 to 2025; and

WHEREAS, staff recommends implementing a CalPERS “fresh start” which would reset the amortization schedule over a shorter term and provide consistent future payments, resulting in significant savings and stabilization of future contribution rates; and

WHEREAS, to further reduce the pension liability and future contributions, staff recommends utilizing the Trust balance to make a one-time Additional Discretionary Payment to reduce the UAL.

NOW, THEREFORE BE IT RESOLVED, that the Board of Directors of the East Bay Regional Park District hereby approves the implementation of a “fresh start” for the CalPERS Miscellaneous Pension Plan and the use of \$6,825,000 from the Pension Trust for an Additional Discretionary Payment as presented to the Board on December 17, 2024; and

BE IT FURTHER RESOLVED, that the General Manager is hereby authorized and directed, on behalf of the Park District and in its name, to execute and deliver such documents and to do such acts as may be deemed necessary or appropriate to accomplish the intentions of this resolution.

Moved by Director _____, and seconded by Director _____, and
adopted December 17, 2024, by the following vote:

FOR:

AGAINST:

ABSTAIN:

ABSENT:

Summary of Key Valuation Results

Below is a brief summary of key valuation results along with page references where more detailed information can be found.

Required Employer Contributions — page 13

	Fiscal Year 2024-25	Fiscal Year 2025-26
Employer Normal Cost Rate	10.48%	10.24%
Unfunded Accrued Liability (UAL) Contribution Amount	\$15,213,167	\$16,987,448
Paid either as		
Option 1) 12 Monthly Payments of	\$1,267,764	\$1,415,621
Option 2) Annual Prepayment in July	\$14,720,888	\$16,437,755

Member Contribution Rates — page 14

	Fiscal Year 2024-25	Fiscal Year 2025-26
Classic Member Contribution Rate	8.00%	8.00%
PEPRA Member Contribution Rate	7.75%	7.75%

Projected Employer Contributions — page 17

	Fiscal Year	Normal Cost (% of payroll)	Annual UAL Payment
	2026-27	10.0%	\$11,131,000
	2027-28	9.8%	\$11,769,000
	2028-29	9.7%	\$13,218,000
	2029-30	9.5%	\$13,476,000
	2030-31	9.3%	\$13,680,000

Funded Status — Funding Policy Basis — page 15

	June 30, 2022	June 30, 2023
Entry Age Accrued Liability (AL)	\$446,869,527	\$476,718,295
Market Value of Assets (MVA)	311,068,677	333,752,531
Unfunded Accrued Liability (UAL) [AL – MVA]	\$135,800,850	\$142,965,764
Funded Ratio [MVA ÷ AL]	69.6%	70.0%

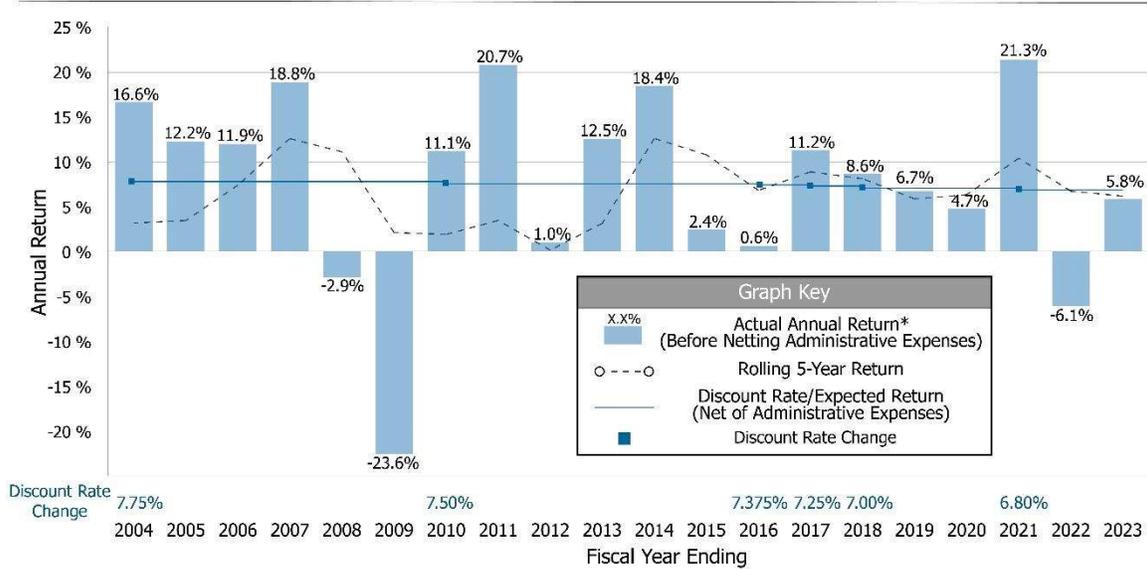
Summary of Valuation Data — Page 73

	June 30, 2022	June 30, 2023
Active Member Count	673	696
Annual Covered Payroll	\$61,307,851	\$67,309,818
Transferred Member Count	141	152
Separated Member Count	225	239
Retired Members and Beneficiaries Count	452	487

CalPERS History of Investment Returns

The following is a chart with the 20-year historical annual returns of the PERF for each fiscal year ending on June 30 as reported by the Investment Office. Investment returns reported are net of investment expenses but without reduction for administrative expenses. The assumed rate of return, however, is net of both investment and administrative expenses. Also, the Investment Office uses a three-month lag on private equity and real assets for investment performance reporting purposes. This can lead to a timing difference in the returns below and those used for financial reporting purposes. The investment gain or loss calculation in this report relies on final assets that have been audited and are appropriate for financial reporting. Because of these differences, the effective investment return for funding purposes in a single year can be higher or lower than the return reported by the Investment Office shown here.

History of Investment Returns (2004 - 2023)



* As reported by the Investment Office with a 3-month lag on private equity and real assets and without any reduction for administrative expenses.

The table below shows annualized investment returns of the PERF for various time periods ending on June 30, 2023. Figures reported are net of investment expenses but without reduction for administrative expenses. These returns are the annual rates that if compounded over the indicated number of years would equate to the actual time-weighted investment performance of the PERF. It should be recognized that in any given year the rate of return is volatile. The portfolio has an expected volatility of 12.0% per year based on the most recent Asset Liability Management study. The realized volatility is a measure of the risk of the portfolio expressed as the standard deviation of the fund's total monthly return distribution, expressed as an annual percentage. Due to their volatile nature, when looking at investment returns, it is more instructive to look at returns over longer time horizons.

History of CalPERS Compound Annual Rates of Return and Volatilities					
	1 year	5 year	10 year	20 year	30 year
Compound Annual Return	5.8%	6.1%	7.1%	7.0%	7.5%
Realized Volatility	—	9.5%	7.8%	8.4%	8.8%

Required Employer Contributions

The required employer contributions in this report do not reflect any cost sharing arrangement between the agency and the employees.

	Fiscal Year
Required Employer Contributions	2025-26
Employer Normal Cost Rate	10.24%
<i>Plus</i>	
Unfunded Accrued Liability (UAL) Contribution Amount	\$16,987,448
<i>Paid either as</i>	
1) Monthly Payment	\$1,415,621
<i>Or</i>	
2) Annual Prepayment Option*	\$16,437,755
<p>The total minimum required employer contribution is the sum of the Plan's Employer Normal Cost Rate (expressed as a percentage of payroll and paid as payroll is reported) and the Unfunded Accrued Liability (UAL) Contribution Amount (billed monthly(1) or prepaid annually(2) in dollars).</p> <p>* Only the UAL portion of the employer contribution can be prepaid (which must be received in full no later than July 31).</p> <p>For Member Contribution Rates see the following page.</p>	

	Fiscal Year 2024-25	Fiscal Year 2025-26
Normal Cost Contribution as a Percentage of Payroll		
Total Normal Cost ¹	18.35%	18.10%
Offset due to Employee Contributions ²	7.87%	7.86%
Employer Normal Cost	10.48%	10.24%
Projected Annual Payroll for Contribution Year	\$66,603,253	\$73,123,634
Estimated Employer Contributions Based on Projected Payroll		
Total Normal Cost	\$12,221,697	\$13,235,378
Expected Employee Contributions	5,241,676	5,747,518
Employer Normal Cost	6,980,021	7,487,860
Unfunded Liability Contribution	15,213,167	16,987,448
% of Projected Payroll (illustrative only)	22.84%	23.23%
Estimated Total Employer Contribution	\$22,193,188	\$24,475,308
% of Projected Payroll (illustrative only)	33.32%	33.47%

¹ The Total Normal Cost is a blended rate for all benefit groups in the plan. For a breakout of normal cost by benefit group, see Normal Cost by Benefit Group.

² This is the expected employee contributions, taking into account individual benefit formula and any offset from the use of a modified formula, divided by projected annual payroll. For member contribution rates above the breakpoint for each benefit formula, see Member Contribution Rates.

Amortization Schedule and Alternatives (continued)

Date	Current Amortization Schedule		Alternative Schedules			
	Balance	Payment	15 Year Amortization		10 Year Amortization	
			Balance	Payment	Balance	Payment
6/30/2025	133,351,137	16,987,448	133,351,137	13,989,023	133,351,137	18,202,353
6/30/2026	124,863,492	11,130,880	127,962,186	13,989,023	123,607,959	18,202,353
6/30/2027	121,851,102	11,769,082	122,206,787	13,989,023	113,202,245	18,202,353
6/30/2028	117,974,328	13,218,073	116,060,021	13,989,024	102,088,942	18,202,353
6/30/2029	112,336,487	13,476,020	109,495,274	13,989,024	90,219,935	18,202,353
6/30/2030	106,048,697	13,680,337	102,484,124	13,989,024	77,543,835	18,202,353
6/30/2031	99,122,190	13,890,376	94,996,216	13,989,024	64,005,761	18,202,353
6/30/2032	91,507,615	13,711,038	86,999,130	13,989,024	49,547,098	18,202,353
6/30/2033	83,560,587	12,891,611	78,458,242	13,989,023	34,105,245	18,202,352
6/30/2034	75,919,991	12,510,324	69,336,575	13,989,024	17,613,347	18,202,352
6/30/2035	68,153,870	11,945,995	59,594,633	13,989,023		
6/30/2036	60,442,851	10,969,562	49,190,240	13,989,024		
6/30/2037	53,216,571	10,387,714	38,078,347	13,989,023		
6/30/2038	46,100,210	9,769,532	26,210,847	13,989,024		
6/30/2039	39,138,792	9,287,394	13,536,356	13,989,023		
6/30/2040	32,202,257	8,955,044				
6/30/2041	25,137,501	7,882,335				
6/30/2042	18,700,922	6,764,322				
6/30/2043	12,982,055	10,307,965				
6/30/2044	3,212,162	2,337,078				
6/30/2045	1,015,358	623,259				
6/30/2046	440,301	455,025				
6/30/2047						
6/30/2048						
6/30/2049						
Total		222,950,414		209,835,353		182,023,528
Interest Paid		89,599,277		76,484,216		48,672,391
Estimated Savings				13,115,061		40,926,886