

MONTEREY PENINSULA REGIONAL PARK DISTRICT
BOARD OF DIRECTORS MEETING

DATE: April 7, 2021
TO: Board of Directors
FROM: Kelly McCullough, Finance Manager
REVIEWED BY: Rafael Payan, General Manager
SUBJECT: Review and Approval of Reserve Fund Expenditure for Unfunded Pension Additional Discretionary Payment

SUMMARY:

Staff respectfully recommends that the Board consider and approve the use of reserve funds for the paydown of unfunded pension liabilities.

FISCAL IMPACT:

Approximately \$1,956,976

FUNDING SOURCE:

Reserve funds

FUNDING BALANCE:

\$5,749,311

DISCUSSION:

The Board has been approving additional discretionary payments for the last several years, in an effort to pay down the unfunded pension liability costs. These additional payments have allowed the District to keep up on an annual basis with the entire cost of the PEPRA plan. That plan has a projected unfunded balance as of June 30, 2021 of \$2,632. Please refer to the attached Schedule of Plan’s Amortization Bases (**ATTACHMENT 1**).

However, the MISC plan, which covers all employees hired prior to 2012, had a much larger balance, not as easily covered with annual payments. Currently, based on the most recent CalPERS valuation (June 30, 2019) the balance owing on this plan, as of June 30, 2021, is \$2,404,983. Please refer to the attached Schedule of Plan’s Amortization Bases (**ATTACHMENT 2**).

The Finance Committee met on February 25, 2021 to discuss the desire to pay down this unfunded liability as quickly as possible, due to the fact that the District pays 7% interest on this liability. Staff recommended use of reserve funds for the paydown. Currently, investment returns on funds in the CalTRUST account are quite low (annualized short-term account 1.05% and 1.93% on the medium-term account). Considering the low investment returns and the 7% interest rate on the unfunded pension balance, it makes sense to pay down the unfunded pension balance.

If the District were to pay down the current balance in the MISC plan, for example by April 20, 2021, the interest savings would be approximately \$1,207,592. In addition, paying it in April rather than waiting until June further reduces the amount owed to approximately \$1,956,976 -- a savings of \$448,007.

Each year the actuary studies and produces a new valuation. Keep in mind that these always lag 2-years behind thus, the most recent valuation is as of June 30, 2019. There are some numbers that are starting to come in for the upcoming June 30, 2020 valuation reports. Based on staff's conversations with the District's CalPERS actuary, the CalPERS investments experienced a gross investment return of 4.7% for the June 30, 2020. This will translate into an approximate 2.3% investment loss for the District's plan. That will mean that even if we pay off the entire unfunded amount now, there will be an unfunded bases for the upcoming report for June 30, 2020. Staff calculates that amount to be approximately \$208,824. The current return is looking to be around 13%, which will translate into an approximate gain for the District of \$488,667 for the June 30, 2021 report. These are preliminary numbers and may be subject to change.

In addition, CalPERS is planning an experience study that will affect the numbers in the June 30, 2021 report. They will no doubt be changing assumptions based on the experience and will most likely be dropping the discount rate, which results in increased costs to agencies.

If the Board approves the paydown suggested in this report and the District makes the payment by the end of April 2021, the change to the valuation will be reflected in the June 30, 2020 report.

RECOMMENDED ACTION:

Staff respectfully recommends that the Board approve the use of reserve funds as considered and recommended by the Finance Committee, as an additional discretionary payment on the District's unfunded MISC and PEPRA pension liability balances at the earliest possible opportunity.

ATTACHMENTS:

1. [PEPRA Schedule of Plan's Amortization Bases](#)
2. [MISC Schedule of Plan's Amortization Bases](#)