

**MONTEREY PENINSULA REGIONAL PARK DISTRICT
STAFF REPORT**

BOARD MEETING: May 6, 2020

SUBJECT: California Employer’s Retiree Benefit Trust (CERBT) and Other Post Employment Benefits (OPEB) Funding Policy and Investment Strategy Meeting Report

PRESENTER: Kelly McCullough, Finance Manager

REPORT: On February 5, 2020, the Finance Committee met to discuss the OPEB Funding Policy and CERBT Investment Strategy choices. There are three Strategy options, with varying percentages in Global Equity.

Matt Goss, Customer Outreach and Support Program Manager for the California Public Employees’ Retirement System (CalPERS) CERBT Fund, participated via telephone and provided the Committee with substantial information regarding the CERBT, how it works, how investments are made and managed, and the benefits of a policy. Among other things he also discussed what happens and when it happens, if an agency decides to change its investment choice. He notified the Committee and Staff that a Strategy change can take up to 30 days to implement.

Mr. Goss also provided a detailed update of the District’s CERBT account, and the three possible funding Strategies. He answered Committee member questions and offered to be available for future questions.

The Committee had reviewed the draft Policy in advance and had no substantive changes to request regarding the Policy.

The Committee was informed that staff had initiated the required biennial process of having an actuarial valuation completed on the District’s OPEB funds. If the Committee wanted to change Strategies, the decision needed to be made as soon possible, so staff could advise the Actuary and notify the CERBT about the change of Strategy. The Committee did not recommend changes at the time. Rather, they requested more information from the Actuary regarding the effect a strategy change would have on the Districts Financial Statements and funded status.

Staff requested this information from the Actuary, who provided statistical information regarding how a change to any of the three Strategy options would affect the Financial Statements and the annual contribution to the Trust.

On March 4, 2020, the Finance Committee met again to review the Draft OPEB Funding Policy and the information provided by the Actuary regarding the effect on the Financial Statements and funding level of a Strategy change. They decided that only a minor change was required to the OPEB Funding Policy, allowing budgeted funds not needed annually to be transferred to unfunded Pension obligations. The Policy could now be taken to the full Board for review and approval.

During the time between the February 5 meeting and the March 4 meeting, the U.S. began to see the economic effects that the emerging Corona Virus, COVID-19 was having on investors and the investment market. The Trust saw some extreme turbulence and losses, however those losses never dipped into the principal investments. Those actuarial numbers showed the Committee that the District could withstand a change in Strategy and still leave the District in a desirable financial position. The Committee's foremost concern was making sure that they were making fiscally prudent and conservative choices and recommendations with taxpayer money, amid this economic uncertainty. The Committee recommended that staff notify the CERBT, that the District would like to change from Strategy 1 to Strategy 2. Staff subsequently notified the CERBT that we desired to change to Strategy 2.

In the meantime, the market turbulence continued to have a significant impact on the investments. On March 19, staff received a call from the CERBT representative, asking us if we would like to review our decision to change Strategies at this time. Because it takes up to 30 days for CERBT Staff to implement the change, there had been additional investment losses and a change at this time would cement those losses. They also reviewed how other agencies had recovered following the past two economic downturns, stating that those who remained in their original Strategy choice had a much better recovery.

The Finance Committee met again on March 25 to discuss this information and reevaluate the Strategy options. In light

of this information from the CERBT and already having the data from the Actuary regarding all three options, and having already had two prior very in depth and robust meetings, the Committee elected to remain in Strategy 1 and withdraw the District's request to change Strategy. This choice has already proven to boost the District's investment loss recovery. It should again be noted that the losses that were sustained were only within the investment earnings on contributions and never on the initial or additional contributions.

The OPEB Trust is currently at 89% funded, based on the June 30, 2019, actuarial valuation. Of the 567 participating agencies in the Trust, the District is among only 65 agencies that are this well-funded. The District is currently well positioned financially, to cover the expenses of contracted OPEB benefits to current and retired employees.

FISCAL IMPACT: Not Applicable – Informational Only

FUNDING BALANCE: Not Applicable – Informational Only

RECOMMENDATION: It is recommended that the Board receive, review and file the report.