



CITY OF BELVEDERE

FINANCE SUB-COMMITTEE: Taskforce on Pensions & OPEBs

AGENDA

March 9, 2021
Via Zoom
1:00 p.m.

Join Zoom Meeting

<https://us02web.zoom.us/j/87121735080?pwd=ZEluZDdxOEdhZGZYUVM3SDkyRVIIUT09>

Meeting ID: 871 2173 5080

Passcode: Belvedere

Dial by your location

833 548 0282 US Toll-free

877 853 5247 US Toll-free

888 788 0099 US Toll-free

833 548 0276 US Toll-free

Meeting ID: 871 2173 5080

Passcode: 748066599

1. Approve minutes from February 23, 2021 meeting.
2. Briefings/Discussion of the City's pension position and potential strategies for managing pension liabilities.
3. Briefings/Discussion of the City's OPEB position and potential strategies for managing OPEB liabilities.
4. Adjourn.

Attachments:

1. Memo to the Taskforce and associated attachments.

NOTICE: WHERE TO VIEW AGENDA MATERIALS

Staff reports and other writings distributed to the Committee, including those distributed after the posting date of this agenda, are available for public inspection at Belvedere City Hall, 450 San Rafael Avenue, Belvedere. (*Writings distributed to the City Council after the posting date of this agenda are available for public inspection at this location only.*) To request automatic mailing of agenda materials, please contact the City Clerk at 415/435-8908.

NOTICE: AMERICANS WITH DISABILITIES ACT

The following accommodations will be provided, upon request, to persons with a disability: agendas and/or agenda packet materials in alternate formats and special assistance needed to attend or participate in this meeting. Please make your request at the Office of the Finance Officer or by calling 415/435-3838. Whenever possible, please make your request four working days in advance.

Date posted: March 8, 2021.

**SPECIAL MEETING
FINANCE SUB-COMMITTEE
Taskforce on Pensions and OPEBs
Tuesday, February 23, 2021
1:00 PM
on Zoom remote platform**

MINUTES

COMMITTEE PRESENT: Steve Block, Bob McCaskill, David Walker, Sally Wilkinson

COMMITTEE ABSENT: N/A

OTHERS PRESENT: City Manager – Craig Middleton,
Admin. Services Manager – Amber Johnson

CALL TO ORDER OF SPECIAL MEETING

The meeting was called to order at 1:00 p.m.

SCHEDULED ITEMS

1. The Committee discussed the background and relevant issues around the City's OPEB liabilities. After much discussion, follow-up tasks were assigned to various members of the Committee to be presented at a future meeting for analysis.

ADJOURN

The meeting was adjourned at 3:00 p.m.

THE FOREGOING MINUTES were approved at a regular meeting of the Finance Committee on March 9, 2021 by the following vote:

AYES: —
NOES: —
ABSENT: —
ABSTAIN: —

APPROVED _____
Sally Wilkinson, Chair

ATTEST _____
Amber Johnson, Admin. Services Manager



CITY OF BELVEDERE

Memorandum

March 8, 2021

TO: Taskforce on Pensions and OPEBs

FROM: Amber Johnson, Administrative Services Manager

SUBJECT: Status of Tasks Assigned to Committee Members

At the end of the prior two meetings of the Taskforce on January 21st and 26th, various Committee members were assigned follow-up tasks to be shared with the entire Committee at its February 9th meeting. These tasks are listed below with responses from the responsible parties as of the writing of this memo.

PENSIONS

1. Schedule meeting with Palo Alto – Amber

Response: We had a productive conversation with Steven Guagliardo of Palo Alto. A summary of the call is attached as Attachment A.

2. Establish what precedents exist in CA for increasing Classic employee contribution rates – Amber

Response: I had a brief e-mail exchange with a leading attorney in this field, Jonathan Holzman of Renne Public Law Group. He stated that we have to bargain with our Classic employees to get them to take on a portion of the employer share. However, if we reach an impasse, we can legally impose 8% (Misc) or 12% (Safety).

3. Email CalPERS' actuaries to explain factors affecting share of pool – David

Response: A transcript of David's questions and PERS' answers are attached as Attachment B.

4. Draft Version 1 of Pension Strategy White Paper – Sally & David

Response: See Attachment C.

5. Review GovInvest (with Tiburon) as a tool for calculating pension metrics and ARC – Amber & Sally

Response: A verbal update will be provided at the meeting.

- 6. Email CalPERS' actuary about possible funding policy formulas – Steve**
Response: See Attachments D and E.
- 7. Confer with CalPERS over pattern of amortization bases and possible partial repayment strategy – Amber & Sally**
Response: Deferred.
- 8. Develop Pension Investment Fund Recommendations – PARS vs CEPPT, administration/financing rules, investment policies, passive vs active investments, role of finance committee etc., – Bob & Steve (One question I have is whether you can exit PARS and move to CEPPT, and vice versa, without any penalties or tax/accounting impacts.)**
Response: See Attachments F, G and H.

OPEBS

- 1. Get answers from accountants on recognition of OPEB liability, and discrepancy between pension UAL in CalPERS annual report versus CAFR – Amber & Steve**
Response 1: See Attachment I for answer on recognition of OPEB liability.

Response 2: Regarding the discrepancy between pension UAL, we learned that there is an additional one-year lag in the reporting of the UAL in the CAFR, since the UAL is not reported until fully audited. Therefore, our 6/30/20 CAFR uses the UAL from the 6/30/**18** valuation report. Also, according to the GASB implementation guide, for the purpose of calculating the discount rate, “the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense.” The administrative expense assumption is 0.15%. Since the 7% discount rate is net of investment and administrative expense, the discount rate of 7.15% (which is gross of administrative expense) is used.
- 2. Obtain healthcare quotes from County and Keenan – Amber**
Response: The County informed me that they are unable to accept our retirees in their healthcare plan. If we decide to switch to the County, we would need to figure out a different solution for current retirees. I have not yet received quotes or information about retiree coverage from Keenan.
- 3. If CalPERS exit is viable, develop possible changes to OPEB benefit formulas (new employees, actives, retirees) and associated savings – Amber & Craig**
Response: Deferred.
- 4. Ascertain legal status of City Manager class benefits – Craig**
Response: Craig to provide verbal update.

Notes on Meeting with Palo Alto

- Amber, Craig, Sally and David had a zoom call with Steven Guagliardo, Senior Management Analyst at the City of Palo Alto on 3/3/2021. Steve has been intimately involved in the City's ongoing pension reform efforts, which culminated in the formal adoption of a pension funding policy in November 2020. Many aspects of the policy have been in place informally for some years.
- As background, Palo Alto has a CalPERS funded ratio (as of June 30, 2019) of 66.1% for miscellaneous and 61.3% for safety and a UAL of \$477 million.
- The policy framework includes reaching a target of 90% funded status with CalPERS within 15 years (FY 2036), funding the NCR at 6.2%, and giving the City Manager flexibility to make additional contributions to pensions from excess reserves. Monies over and above CalPERS' required contribution are being invested in a Section 115 Trust managed by PARS (established in 2017, with \$32 million of contributions already made). The policy will be formally reviewed every three years, with annual updates as part of the budget review process. The goal of the policy is to prevent crowding out of service delivery caused by the increasing cost of pension obligations.
- Steve commented that the targets and goals were largely reverse engineered by what the City could afford. The 6.2% discount rate was suggested by its consultants, Wiltshire Associates, which also consults for CalPERS. Steve acknowledged that Wiltshire has subsequently cut its long-term expected rate of return below 6.0%, but this is unaffordable for Palo Alto.
- Steve does not expect a more aggressive pension funding strategy to emerge in the near to medium term given the hit to the City's revenues from COVID, particularly Transit Occupancy Tax and Business Franchise Tax revenues. The City has continued to fund the NCR at 6.2% despite the downturn.
- The City uses a variety of actuarial tools to determine and monitor its funding policy, including Bartel Associates, GovInvest and, more recently, CalPERS Pension Outlook tool. He noted that all generate different results, given their black box nature. GovInvest has proved to be a useful tool for educational purposes, particularly with bargaining units, given its user-friendly interface.
- We discussed the pros and cons of Section 115 investing with PARS versus PERS. Palo Alto uses PARS because it was the only option available in 2017 when the trust was launched. The City has been investing in a moderately conservative fund, with returns proving to be volatile but largely meeting expectations (4.5%) on a trend basis. He noted that CalPERS launched its CEPPT fund (and its Pension Outlook tool) because of conversations with large cities like Palo Alto.
- Palo Alto has been running an OPEB Section 115 Trust since 2008 and Steve commented that the timing of its initial investment was terrible, and the fund has taken a long time to recover. This supports the case for investment any seed money into the markets gradually (dollar cost averaging) not in one lump sum.
- We discussed employee contribution rates. Steve commented that the City's bargaining units had approached the City about pension underfunding because of constant bad press and academic commentary about the City's precarious state. Unions agreed to increase employee contribution rates by 1% for miscellaneous and 3% for safety in return for a generous pay increase. Nevertheless, he said the conversations were difficult.
- We talked about the City of Belvedere's plans, which Steve suggested were gold standard. He was surprised we planned to move so expeditiously, given the City's healthy funded status with CalPERS, but understood the impetus given the City's likely need to secure debt financing for its Sea Wall Project. He suggested an annual funding report would be useful and concurred that Belvedere should continue to use CalPERS discount rate for CAFR financial reporting purposes.

**Transcript of Q&A with CalPERS GASB 68 Team
March 5 to March 8, 2021**

We have some questions about our share of the risk pool we are hoping you can answer. We asked our PERS actuary these questions, but she referred us to you.

A) The City's pension deferred inflows and outflows for CAFR purposes have been large and erratic in recent years. In particular, the deferred inflows AND outflows related to "adjustments due to differences in proportions" have been large. We believe this has something to do with the large excess contributions the City made but are not sure. Can you confirm our belief or otherwise explain? **In short, yes. The answer below should help explain further. But basically your proportionate share allocation factor is based on Actuarial Accrued Liability (for the TPL factor) and of the Market Value of Assets (for the FNP factor). Since you made the excess contributions in 17-18, you had a more favorable allocation that year. In the absence of that the second year, it will cause this calculation to swing.**

B) Specifically, it is reported in Note 8 of the City's FS for FYE June 30, 2020 that "The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined." Please walk us through a summary of that actual calculation. In the same Note, it then shows that the City's proportionate share of the net pension liability increased about 50% from FYE 2018 to FYE 2019. Please explain how this occurred and the impact resulting. **The Net Pension Liability is calculated as (Pool Total Pension Liability*Employer's TPL Allocation Factor) – (Pool Fiduciary Net Position*Employer's FNP Allocation Factor). To break that down further, the allocation factors are calculated as a percent of the pool totals of the Actuarial Accrued Liability (for the TPL factor) and of the Market Value of Assets (for the FNP factor). Since you are referring to the FYE 6/30/20 financials, I will illustrate below using 6/30/19 measurement date (used to calculate 6/30/20 financials) and 6/30/18 measurement date values for comparison.**

	2018 Measurement Date				
	TPL Factor	Pool Total TPL	FNP Factor	Pool Total FNP	Employer's NPL
Misc	0.0007700	16,891,153,209	0.0009667	13,122,440,092	320,725
Safety	0.0003935	22,053,702,155	0.0005199	16,186,149,467	262,953

	2019 Measurement Date					
	TPL Factor	Pool Total TPL	FNP Factor	Pool Total FNP	Employer's NPL	% Change
Misc	0.0007481	17,984,188,264	0.0009265	13,979,687,268	501,791	56%
Safety	0.0003927	23,442,265,225	0.0005130	17,199,726,799	382,318	45%

It looks like between these dates there were two primary reasons for an increase in NPL. First (highlighted yellow), the 2018 FNP factor was more favorable due to extra contributions of 2,160,000 and 1,440,000 being made in FY 2017-18, with none in FY 2018-19. Secondly, there was an increase in both the Miscellaneous and Safety pool total NPL over this time period of about \$4 billion.

C) “Deferred Revenues” is a relatively common term in accounting. Is it appropriate to assume that the Deferred Inflows/Outflows were are referencing in these questions are a Balance Sheet mirror resulting from the actuarial methodology and smoothing [delays] in recognizing events? If so, what are the major drivers in the large scale of the Deferred Inflows/Outflows? Is it possible or likely that they will smooth out from a Balance Sheet perspective? **Deferred Inflows/Outflows have to do with pension expense. Each year, the risk pool experiences gains and losses based on both demographic changes as well as investment performances. These gains and losses are recognized over different periods according to GASB.** The portion that is recognized flows into pension expense. Any outstanding unrecognized gains for a given year are considered as “Deferred Inflows” and any unrecognized losses are considered as “Deferred Outflows.”

Follow up question to response in item C):

Recognizing these “different periods”, it seems we could get a schedule of all deferrals currently in “the pipe line” shown by the year in which they will be recognized. Please provide.

Answer to follow up question:

Yes, that information is in the GASB report. Page 7 has the summary and the appendices have all of the detailed calculations. Here are links to the most current reports.

<https://www.calpers.ca.gov/docs/forms-publications/gasb-68-accounting-valuation-miscellaneous-risk-pool-2020.pdf>

<https://www.calpers.ca.gov/docs/forms-publications/gasb-68-accounting-valuation-safety-risk-pool-2020.pdf>

Taskforce on Pensions & OPEB Interim Report to Belvedere Finance Committee (DRAFT)

Background

On January 12, 2021, the City of Belvedere's Finance Committee established a Taskforce on Pensions & OPEBs ("taskforce"), comprising four of its seven members. The taskforce was assigned the job of recommending a package of reforms to reduce the City's unfunded pension and other post-employment benefit (OPEB) obligations, to ensure the City's ongoing fiscal sustainability. The taskforce was asked to report back to the full Finance Committee when it had made substantive progress. The taskforce has met five times in the past seven weeks and is ready to present a tentative package of reforms to the Finance Committee and seek guidance in certain areas.

PART 1: PENSIONS

Pension Funding Tenets

The taskforce suggests the City adopt the following five tenets as the basis of its pension funding policy:

1. The cost of employee benefits should be paid by the generation of taxpayers who receives services.
2. Actuarial assumptions should be prudential to ensure that promised benefits can be paid.
3. Funding shortfalls should be closed expeditiously. The goal is full funding.
4. Large swings in employer contribution rates are undesirable. Smoothing is desirable.
5. Funding policies and underlying assumptions should be clearly delineated and regularly reviewed.

Actuarial Assumptions

The first question the taskforce sought to answer in analyzing the City's pension risk is whether the City's pension obligations are appropriately valued by CalPERS. There was broad agreement that the 7.0% discount rate used by CalPERS to discount future pension benefit payments, which is based on its expected return on plan assets, is too optimistic, thereby understating the City's pension liabilities. The taskforce set about determining a more appropriate discount rate selection methodology. It considered the merits of using a "risk-free" discount rate (based on an index of high-quality corporate bonds) or relying on analyst forecasts of future investment returns, for example those laid out in Horizon's Annual Survey of Capital Market Assumptions. It concluded that a risk-free discount rate is likely too conservative, given CalPERS actual investment mix, and that analyst forecasts are no more likely to be correct than those of CalPERS' investment office, which also consults with outside advisors. The taskforce observed that CalPERS itself is projecting a 5.67% annual return on plan assets over the next 10 years (it assumes a 7.85% return in the outer years to reach its overall 7.0% average return).

Factoring in the City's risk aversion and plan maturity, and acknowledging the unpredictability of financial markets, the taskforce agreed the City should adopt a discount rate equal to CalPERS' expected return on plan assets minus a margin of 100 basis points. This would peg the City's discount rate at 6.0% for FY21-22. Recognizing that CalPERS may reduce its own discount rate in coming years, the taskforce agreed the 6.0% rate should be maintained for a minimum of three years and then be reviewed by the Finance Committee as part of a standing review of the City's pension funding strategy (see later).

The taskforce reviewed the other economic and demographic assumptions underpinning CalPERS' model and concluded the risks are evenly balanced. The City's demographic risks are pooled, and the pooled experience has largely tracked expectations.

Annual Funding Costs

Having agreed a 6.0% discount rate assumption, the taskforce sought to understand the financial impact of this more prudent discount rate on the City's ongoing pension costs. Thanks to GASB rules, agencies are required to report the impact of a one percentage point reduction (or increase) in the discount rate on both the normal cost rate (NCR) and unfunded accrued liability (UAL). The data for fiscal year end June 30,

2019 are shown in the table below. CalPERS calculates contribution rates based on funded status two years prior, so the June 30, 2019 valuations provide the correct numbers for the upcoming 2021-22 fiscal year.

$$\text{Annual required contribution (ARC)} = \text{Normal cost rate (NCR)} + \text{Annual UAL payment}$$

Table 1: Impact of 6.0% Discount Rate on Belvedere's Pension Metrics

	7.0% Discount Rate	6.0% Discount Rate	Change
Accrued Liability (US\$ mn)	23.88	26.81	2.94
Market Value of Assets (US\$ mn)	22.30	22.30	-
UAL (US\$ mn)	1.58	4.52	2.94
Funded Ratio (%)	93.38%	83.15%	10.23%
Employer NCR (%)	11.63%	16.40%	4.76%
Employer NCR (US\$)¹	249,882	352,208	102,325

¹Based on estimated payroll and assumes no change in employee contribution rates. Note: The sensitivity data reported in agencies' CAFR differ from those presented above (which draw from CalPERS' Annual Valuation Reports) because CAFR data are based on a higher discount rate (equal to CalPERS' discount rate plus 15 basis points of administration expenses). Source: CalPERS

Unfortunately, the GASB-required sensitivity analysis does not show how to amortize the higher UAL created by a 6.0% discount rate. The City asked CalPERS if it could assist, but it declined. The taskforce therefore reviewed various options for calculating an appropriate annual UAL payment, including relying on CalPERS Pension Outlook tool, using an off-the-shelf tool called Gov Invest, applying closed-period, dollar-flat amortization, or scaling up CalPERS suggested UAL payments in proportion to the higher UAL. All four options have shortcomings (see box) but produce broadly similar results in terms of dollar impact (see later discussion). The taskforce agreed that whichever methodology is chosen, the dollar cost (over and above CalPERS scheduled payments) should be fixed in nominal terms for a period of 3-5 years to allow sensible budget planning. The taskforce is looking for guidance from the Finance Committee on this issue.

Box 1: UAL Amortization Methodologies

Option 1: CalPERS Pension Outlook Tool

The tool allows agencies to make changes to discount rate and investment return assumptions as well as make additional discretionary payments and model their impacts on UAL payments (and the NCR) over a 30-year period versus the current payment profile. The advantage of this tool is that it lays out the impacts over multiple years and relies on the intricacies of CalPERS plan-specific actuarial data and amortization rules. The downside is that it produces results that are one year off cycle i.e., changing inputs today (related to FY19-20) produces results that affect required contributions starting FY22-23. Furthermore, it does not allow the application of a lower discount rate to "stick", so the amortization clock starts again every time the model is run.

Option 2: Gov Invest Pension Tool

The Gov Invest tool is a more sophisticated version of the CalPERS Pension Outlook tool, using CalPERS plan-specific inputs and amortization rules, and adding one more year of census data. Assumptions can be altered at a more granular level. Historical data can also be inputted (related to FY18-19, for example) allowing direct calculation of the appropriate UAL payment for FY21-22. The tool has other useful attributes, unrelated to calculating the UAL payment. The downside of the tool is its cost (circa \$5,000 p.a.) and the unknown nature of its black box, which other cities indicate does not generate matching results to CalPERS tool.

Option 3: Ratio Formula

Application of a ratio formula involves taking the ratio of the UAL at 6.0% (less Section 115 trust assets – see later) to the UAL at 7.0% and multiplying it by the UAL payment (at 7.0%) required by CalPERS. The main downside of this methodology is that CalPERS' amortization schedule is not smooth (because of its use of annual amortization bases) and UAL costs tend to accelerate over time, in part because investment losses ramp up over a 5-year period. Using a ratio formula will amplify this effect. Taking the average cost implied by the formula over a medium-term period will mitigate some of this effect.

Option 4: Dollar Flat Amortization Formula

Dollar-flat amortization involves taking the UAL at 6.0% (less Section 115 trust assets) and repaying the debt over a fixed period, say 20 years, in equal installments, using a 6.0% interest rate. A 20-year window fits with CalPERS new amortization rules (which shorten the amortization window from 30 to 20 years on new annual bases), and gels with the view of rating agencies that pension debt should be amortized over 20 years or less. To avoid the debt continuing to roll i.e., never being fully paid off, the formula would have to amortize the existing UAL over a closed 20-year period, with additional amortization rules applied to UAL bases created after implementation of the formula.

Source: Author

Affordability

Next the taskforce sought to establish the affordability of a 6.0% discount rate from a budgetary perspective. City staff reviewed the scope of “free funds” within the budget to allocate to pensions, over and above CalPERS’ ARC payments. They identified approximately \$300,000 of available funds on a recurring basis, \$100,000 from terminating the annual pension fund reserve payment and \$200,000 from deferring the hiring of a police officer for at least the next three years. The taskforce also reviewed the City’s current financial statements, as of June 30, 2020, and identified \$1.2 million of excess reserves and \$300,000 of pension fund reserves that could immediately be used to fund pensions and lower ongoing amortization costs.

Using the various methodologies describe in the prior section, the cost of amortizing the 6.0% UAL adjusted for a \$1.5 million upfront payment was calculated. All four methods produced broadly similar results, with the additional UAL payment ranging from \$140,000-190,000 p.a. Coupled with a \$100,000 higher NCR, the total annual impact of adopting a 6.0% discount rate, adjusted for a \$1.5 million extraordinary payment, stands at about \$250,000 to \$300,000, allowing the policy to be implemented with limited budgetary stress whilst honoring the City’s generous reserve policy. Furthermore, the COVID relief bill currently moving through Congress is slated to provide the City with an additional \$350,000 of unrestricted funds.

Table 2: Modeling the Amortization Cost of a Higher UAL

	Increase in UAL Amortization Cost (Over Baseline) Implied by Model
CalPERS Pension Outlook Tool	Increases UAL payment by \$180-190k p.a. over 5-year period starting FY22-23.
Gov Invest Pension Tool	TBD
Ratio Formula	Increases UAL payment by \$110k in FY21-22, or an average of \$145 p.a. over 5 years.
Dollar Flat Amortization Formula	Increases UAL payment by \$142k in FY21-22.

Source: Author

Investment Options

The taskforce was in broad agreement that monies set aside for pensions should not be used to make additional discretionary payments to CalPERS. The City already has a 93.4% funded ratio with CalPERS (using its 7.0% discount rate), although this will likely drop as of June 30, 2020, given CalPERS provisional 4.7% investment return for the year. The taskforce discussed using the funds to make accelerated payments on the City’s \$2.228 million of outstanding lease-leaseback debt (used to finance earlier discretionary payments to CalPERS) but the terms of the recent lease-leaseback refinancing preclude early repayment until at least 2026.

Interest therefore centered on establishing a Section 115 pension trust, which irrevocably ringfences funds for pension purposes. Section 115 trusts are commonplace among Marin municipalities and elsewhere. Although Section 115 pension fund assets cannot be used to reduce net pension debt for GASB financial reporting purposes, they are held on balance sheet as restricted assets, thereby improving the City’s overall statement of net position. The credit rating impact is essentially the same.

The range of Section 115 trust providers is extremely limited. The taskforce briefly explored the option of the City securing its own private letter ruling from the IRS but determined it would be cost and time prohibitive. It therefore examined the offerings of the two main 115 trust providers: CalPERS and PARS. PARS is a for-profit financial services firm that currently manages the City’s modest retirement enhancement plan. CalPERS 115 pension trust, known as the California Employers’ Pension Prefunding Trust Fund (CEPPT), has only been operational since October 2019 (although its OPEB trust has run for much longer) and offers two low-risk investment strategies. CalPERS acts both as trustee and investment manager. Under the PARS structure, PARS acts as the trustee and partners with investment managers to offer a range of fund options with different risk profiles. Investment performance between CEPPT and PARS is similar. PARS charges higher fees but offers more investment options and would provide some investment manager diversification away from CalPERS. The taskforce is looking for guidance from the

Finance Committee on its preferred investment vehicle. It recommends seeding the chosen trust with the \$1.5 million of excess reserves/pension reserves, using dollar-cost averaging, and then making payments of \$300,000 per annum until the next pension review in 3-5 years' time.

Please review the separate document for a more thorough review of investment options.

Oversight and Reporting

The taskforce discussed an appropriate oversight and reporting framework. It suggests the Finance Committee conduct a standing pension funding review every 3-5 years to reset the discount rate, adjust annual funding costs and fix those payments until the next review. It may also wish to move money from the 115 trust to CalPERS, depending on circumstances, and/or making additional payments to the 115 trust should the City have accumulated fresh excess reserves.

The taskforce discussed valuing the City's pension liabilities at a 6.0% discount rate for financial reporting purposes but concluded this would disadvantage the City vis à vis its peer cities. Instead, it suggests staff produce an annual pension update describing the City's pension funding policy and funded status and include it in the notes to the financial statements.

Retirement Enhancement Plan Review

The taskforce reviewed the City's retirement enhancement plan, managed by PARS, which has been closed to new entrants since 2012. It determined that its total and unfunded liabilities are small and already discounted using a 6.5% discount rate and that further review, or special funding arrangements, were not necessary at this stage.

Review of City's Reserve Policy

The taskforce discussed whether the City's generous reserve policy (reserves of no less than 6 months of general fund operating expenses, debt financing costs and fire contract costs net of fire tax revenues) should be relaxed to reflect the additional financial buffer provided by the Section 115 trust i.e., in a difficult year, trust assets can be used to finance payments to CalPERS. The consensus was that the reserve policy was established to cope with exogenous shocks, including natural disasters, and that reducing discipline in this area to finance greater pension discipline would be imprudent.

Employee Contribution Rates

Finally, the taskforce discussed scope for raising employee contribution rates to help share the burden of increased costs associated with CalPERS' investment underperformance versus its ambitious target. The taskforce observed that PEPRAs employees already pay 50% of their NCR, which is the maximum allowed under the law. Classic employees pay less, and the PEPRAs reforms provide scope for an increase in classic employee contribution rates to 8.0% (from 7.0%) for miscellaneous staff and 12.0% (from 9.0%) for safety workers, commencing 2018. In practice, the savings to the City from implementing a higher classic employee cost share would be very limited, at about \$15,000 p.a., given the City's current employee mix, particularly the low number of classic safety workers. At this time, the taskforce recommendsTO BE DECIDED. The taskforce does not recommend employee cost sharing of the employer contribution, as the required quid pro quo, typically a pay rise or higher COLA, can increase overall employer costs, particularly given the low rate of staff turnover in Belvedere.

Summary

- Continue to make ARC payments (NCR + UAL payment) to CalPERS according to its funding formulas.
- Continue to use CalPERS discount rate for financial reporting purposes.
- Seed a Section 115 pension trust with the \$1.5 million of excess reserves and pension reserves.

- Adopt a discount rate of CalPERS minus 100 basis points for internal planning purposes.
- Fix that rate, currently 6.0%, for 3-5 years, commencing FY2021-22.
- Determine the NCR and UAL at 6.0%, using CalPERS latest Annual Valuation Reports.
- Calculate the annual UAL payment at 6.0% net of Section 115 fund assets.
- Calculate the difference between the ARC at 6.0% and CalPERS ARC. Fix that amount, estimated to be \$300,000 in FY2021-22, in nominal terms for 3-5 years.
- Make an annual payment of \$300,000 to the Section 115 trust, commencing FY2021-22.
- Produce an annual pension update to be included in the notes to the City's financial statements.
- Implement a standing pension review no less than 3 years and no more than 5 years after adoption of the policy, and every 3-5 years thereafter, led by the City's Finance Committee.

PART 2: OPEBS

Funding Options

There are two basic sets of options that the ad hoc might want to consider in order to calculate the creation of reserves reflecting a putative discount rate. There are also a couple “punts.”

The first set of options are “dynamic” in that they are intended to address ongoing changes in UAL resulting from changes in assumptions and actuarial gains and losses.

Option 1:

Each year take the putative UALs provided under the CalPERS “1% Lower Real Rate of Return” (contained in our CalPERS Valuation reports) and divide those numbers (in the aggregate) by the aggregate of CalPERS “book” UALs. Multiply this ratio by the UAL amortization payment due CalPERS for the year in question. Subtract the payment due to CalPERS for that year and place the balance in our Section 115 reserve. This method is not perfect due to timing differences and other minor factors but it largely accomplishes the goal of creating a “parallel” UAL amortization that will flex with actuarial gains and losses.

Option 1b:

CalPERS provides a fresh start option which allows us to recast its amortization schedule at a straight line at the current discount rate (7%). These payments could also be used to calculate the putative amounts and amounts paid into the trust as under Option 1.

A second set of options may be easier to administer and to understand but will not accommodate actuarial gains and losses (or changes in assumptions).

Option 2:

Take a straight line of the total putative UAL currently showing under the “1% Lower Real Return” scenario described above and take a straight-line amortization over 14 (or more) years. Take the difference between this amount and the payment actually due and deposit it into our Section 115 Trust.

Option 2a:

Same as Option 2 but effect a fresh start and deposit the difference between the putative amortization payments and the fresh start payments into the Section 115 Trust.

Finally, we can “punt” and reach for another option. The ad hoc may also consider using CalPERS “Pension Outlook,” “Gov-Invest” or some other tool to reach a satisfactory result. We might also consider consulting an actuary to create a satisfactory dynamic methodology.

The attached spreadsheet attempts to demonstrate the application of the first four methods discussed in this note.

Attachment E

Current Calpers Amortization Tables for All Tiers

Current Calpers Amortization Tables (Source: 2019 Calpers Valuation Reports)

Amortization Payments

	6/30/2021	6/30/2022	6/30/2023	6/30/2024	6/30/2025	6/30/2026	6/30/2027	6/30/2028	6/30/2029	6/30/2030	6/30/2031	6/30/2032	6/30/2033	6/30/2034	6/30/2035	6/30/2036	6/30/2027	6/30/2038	6/30/2039	6/30/1940
Misc Classic #2951432784	64,832.00	75,664.00	86,961.00	99,757.00	103,740.00	106,226.00	108,783.00	111,412.00	114,111.00	116,886.00	119,735.00	122,665.00	125,674.00	99,338.00						
Misc PEPR A #2951432784	2,814.00	3,941.00	4,069.00	4,201.00	4,335.00	4,448.00	4,564.00	4,685.00	4,807.00	4,934.00	5,064.00	5,197.00	5,333.00	5,474.00	215.00	216.00	216.00	216.00	215.00	215.00
Safety Classic #2951432784	49,836.00	58,733.00	68,026.00	77,404.00	80,433.00	82,367.00	84,351.00	86,391.00	88,489.00	90,643.00	92,854.00	95,127.00	97,465.00	40,715.00						
Safety PEPR A #2951432784	2,315.00	2,387.00	2,459.00	2,533.00	2,611.00	2,680.00	2,751.00	2,825.00	2,900.00	2,976.00	3,056.00	3,138.00	3,221.00	3,309.00	87.00	86.00	87.00	86.00	85.00	85.00
Aggregate Payment	119,797.00	140,725.00	161,515.00	183,895.00	191,119.00	195,721.00	200,449.00	205,313.00	210,307.00	215,439.00	220,709.00	226,127.00	231,693.00	148,836.00	302.00	302.00	303.00	302.00	300.00	300.00

Amortized Balances

Misc Classic #2951432784	904,709.00	900,977.00	885,778.00	857,830.00	814,689.00	764,409.00	708,037.00	645,073.00	574,983.00	497,195.00	411,090.00	316,011.00	211,246.00	96,034.00						
Misc PEPR A #2951432784	41,093.00	40,025.00	38,750.00	37,253.00	35,515.00	33,517.00	31,263.00	28,730.00	25,895.00	22,736.00	19,224.00	15,332.00	11,029.00	6,284.00	1,061.00	913.00	754.00	584.00	402.00	208.00
Safety Classic #2951432784	687,151.00	683,702.00	670,808.00	647,339.00	612,650.00	572,335.00	527,198.00	476,849.00	420,863.00	358,787.00	290,141.00	214,401.00	131,009.00	29,361.00						
Safety PEPR A #2951432784	24,730.00	24,066.00	23,281.00	22,367.00	21,313.00	20,104.00	18,739.00	17,205.00	15,488.00	13,572.00	11,444.00	9,084.00	6,474.00	3,596.00	425.00	365.00	302.00	233.00	160.00	83.00
Beginning Aggregate Balance	1,657,683.00	1,648,770.00	1,618,617.00	1,564,789.00	1,484,167.00	1,390,365.00	1,285,237.00	1,167,857.00	1,037,229.00	892,290.00	731,899.00	554,828.00	359,758.00	135,275.00	1,486.00	1,278.00	1,056.00	817.00	562.00	291.00

14 Year Fresh Start

(Source: Shelly Chu)

Amortization Payments

Misc Classic #2951432784	100,008.00	100,008.00	100,008.00	100,008.00	100,008.00	100,008.00	100,008.00	100,008.00	100,008.00	100,008.00	100,008.00	100,008.00	100,008.00	100,008.00
Misc PEPR A #2951432784	4,542.00	4,542.00	4,542.00	4,542.00	4,542.00	4,542.00	4,542.00	4,542.00	4,542.00	4,542.00	4,542.00	4,542.00	4,542.00	4,542.00
Safety Classic #2951432784	75,959.00	75,959.00	75,959.00	75,959.00	75,959.00	75,959.00	75,959.00	75,959.00	75,959.00	75,959.00	75,959.00	75,959.00	75,959.00	75,959.00
Safety PEPR A #2951432784	2,734.00	2,734.00	2,734.00	2,734.00	2,734.00	2,734.00	2,734.00	2,734.00	2,734.00	2,734.00	2,734.00	2,734.00	2,734.00	2,734.00
Aggregate Payment	183,243.00	183,243.00	183,243.00	183,243.00	183,243.00	183,243.00	183,243.00	183,243.00	183,243.00	183,243.00	183,243.00	183,243.00	183,243.00	183,243.00

Amortized Balances

Misc Classic #2951432784	864,589.73	821,662.12	775,729.57	726,581.75	673,993.58	617,724.23	557,516.03	493,093.26	424,160.89	350,403.26	271,482.60	187,037.48	96,681.21	(0.00)
Misc PEPR A #2951432784	39,270.73	37,320.91	35,234.60	33,002.24	30,613.62	28,057.80	25,323.07	22,396.90	19,265.91	15,915.75	12,331.07	8,495.47	4,391.38	0.00
Safety Classic #2951432784	656,679.33	624,074.65	589,187.63	551,858.53	511,916.38	469,178.29	423,448.53	374,517.69	322,161.69	266,140.77	206,198.39	142,060.04	73,432.00	(0.00)
Safety PEPR A #2951432784	23,633.35	22,459.93	21,204.38	19,860.94	18,423.45	16,885.34	15,239.56	13,478.58	11,594.33	9,578.19	7,420.91	5,112.62	2,642.76	0.00
Ending Aggregate Balance	1,584,173.15	1,505,517.61	1,421,356.18	1,331,303.45	1,234,947.03	1,131,845.66	1,021,527.20	903,486.44	777,182.83	642,037.97	497,432.97	342,705.61	177,147.35	(0.00)

2021 UAL Balances @ 6%

(Source: 2019 Calpers Valuation Reports)

Misc Classic #2951432784	2,427,980.00
Misc PEPR A #2951432784	95,295.00
Safety Classic #2951432784	1,954,786.00
Safety PEPR A #2951432784	38,699.00
Aggregate Beginning Balance	4,516,760.00

Amortization of Putative Balances (@ 6%) based on payments made in ratio to balances - Current Schedule

Using Current Calpers Amortization Schedule:

	2.72	2.71	2.69	2.67	2.65	2.64	2.62	2.61	2.60	2.59	2.58	2.58	2.60	2.87	(10.53)	(9.02)	(8.99)	(8.95)	(8.96)	(8.45)	(7.04)
Beginning Balance	4,516,760.00	4,461,349.57	4,348,247.65	4,175,249.12	3,935,086.13	3,664,462.79	3,368,485.93	3,045,237.01	2,692,588.81	2,308,198.86	1,899,387.61	1,432,993.50	934,938.92	388,911.60	(15,652.78)						
Aggregate Payment Schedule	326,416.03	380,782.90	433,893.39	490,677.94	506,728.51	515,844.63	525,358.07	535,362.42	545,945.28	557,303.18	569,757.37	584,034.19	602,123.66	427,899.07	(3,181.12)	(2,725.48)	(2,724.15)	(2,704.05)	(2,687.33)	(2,536.42)	
Aggregate Ending Balance	4,461,349.57	4,348,247.65	4,175,249.12	3,935,086.13	3,664,462.79	3,368,485.93	3,045,237.01	2,692,588.81	2,308,198.86	1,899,387.61	1,432,993.50	934,938.92	388,911.60	(15,652.78)	(13,410.83)	(11,489.99)	(9,455.24)	(7,318.50)	(4,751.55)	(2,049.31)	

Discount rate:
106.00%

Cashflow To (From) 115 Trust	206,619.03	240,057.90	272,378.39	306,782.94	315,609.51	320,123.63	324,909.07	330,049.42	335,638.28	341,864.18	349,048.37	357,907.19	370,430.66	279,063.07	(3,483.12)	(3,027.48)	(3,027.15)	(3,006.05)	(2,987.33)	(2,836.42)
Trust Assets @ 6% Return	206,619.03	459,074.07	758,996.90	1,111,319.65	1,493,608.34	1,903,348.47	2,342,458.45	2,813,055.37	3,317,476.97	3,858,389.77	4,438,941.53	5,063,185.21	5,737,406.98	6,360,714.47	6,738,874.22	7,140,179.19	7,565,562.79	8,016,490.50	8,494,492.60	9,001,325.74

Amortization of Putative Balances (@ 6%) based on payments made in ratio to balances - Fresh Start

Using Current Calpers Amortization Schedule:

Ratio of "City UAL" to Calpers UAL	2.72	2.71	2.69	2.67	2.66	2.64	2.63	2.62	2.60	2.59	2.59	2.59	2.60	2.64
------------------------------------	------	------	------	------	------	------	------	------	------	------	------	------	------	------

Attachment E

	6/30/2021	6/30/2022	6/30/2023	6/30/2024	6/30/2025	6/30/2026	6/30/2027	6/30/2028	6/30/2029	6/30/2030	6/30/2031	6/30/2032	6/30/2033	6/30/2034	6/30/2035	6/30/2036	6/30/2027	6/30/2038	6/30/2039	6/30/1940
Beginning Balance	\$4,516,760.00	\$4,288,475.54	\$4,049,731.52	\$3,799,805.23	\$3,537,917.95	\$3,263,227.64	\$2,974,819.46	\$2,671,692.75	\$2,352,742.28	\$2,016,729.15	\$1,662,231.53	\$1,287,550.66	\$890,499.30	\$467,783.68						
Aggregate Payment Schedule	\$499,290.06	496052.5451	492910.1786	489875.5993	486965.3856	484201.8376	481615.8774	479252.0405	477177.667	475501.3663	474414.7637	474304.3996	476145.5774	483880.1486						
Aggregate Ending Balance	\$4,288,475.54	\$4,049,731.52	\$3,799,805.23	\$3,537,917.95	\$3,263,227.64	\$2,974,819.46	\$2,671,692.75	\$2,352,742.28	\$2,016,729.15	\$1,662,231.53	\$1,287,550.66	\$890,499.30	\$467,783.68	\$11,970.55						
Discount rate:	106.00%																			
Cashflow To (From) 115 Trust	\$316,047.06	\$312,809.55	\$309,667.18	\$306,632.60	\$303,722.39	\$300,958.84	\$298,372.88	\$296,009.04	\$293,934.67	\$292,258.37	\$291,171.76	\$291,061.40	\$292,902.58	\$300,637.15						
Trust Assets @ 6% Return	\$316,047.06	\$647,819.43	\$996,355.78	\$1,362,769.72	\$1,748,258.29	\$2,154,112.63	\$2,581,732.26	\$3,032,645.24	\$3,508,538.62	\$4,011,309.31	\$4,543,159.63	\$5,106,810.60	\$5,706,121.82	\$6,349,126.28						

Suggested Hierarchy of Investment Criteria and Summary of Investment Options

Allocation

Most investment consultants would agree that the single greatest factor for determining long term investment returns is asset allocation. This decision commonly overwhelms decisions related to asset selection because risk and returns for different asset classes vary more than risks and returns of different strategies within a given asset class. Since the City wishes to reduce the volatility inherent in its CalPERS Total Fund asset mix by creating additional reserves, investing those reserves in a more conservative asset mix would seem to be appropriate. On the other hand, unless invested reserves meet a certain level of return, the City will inevitably fall behind its goals in maintaining target reserves. Some trade-off will be inevitable.

Implementation

Most consultants would also probably agree that the second most important factor impacting on long term investment returns is the investor's rebalancing strategy. In most oscillating markets and over long periods of time, a "constant mix" strategy will perform better than a "buy and hold" strategy since constant mix maximizes the value of diversification. On the other hand, a buy and hold strategy will outperform in the event of broad secular change (i.e. a trending market). Unfortunately, markets tend to oscillate and so buy and hold strategies are not much in favor. A third set of strategies fall under the rubric of "dynamic mix." These strategies either depend on options to place floors under asset values (i.e., portfolio insurance), engage in tactical reallocations based on the investor's views regarding short term market prospects or employ some mix of both. Portfolio insurance provides a floor to risk and works well in the case of up markets but inflicts a drag on returns over the long term when compared to constant mix. Tactical allocation strategies can be profitable for some active managers (Howard Marks comes to mind) but very few can actually make this approach pay over the long term. Since a market timer has relatively few chances to "beat the market" (compared to, say a stock picker), even a very skilled market timer is hard pressed to create alpha given the limited breadth of opportunity. Implementation is a significant area of differentiation between the PARS strategies and the CEPPT strategies summarized below. CEPPT funds are managed to reduce tracking error (i.e. variance from benchmarks and from the aggregate weighted return of such marks) while PARS strategies are intended to produce alpha through tactical allocation (i.e. create a positive premium over their benchmarks).

Asset Selection

Finally, most investment consultants would probably agree that the least reliable factor in determining investment returns is asset selection. Choosing a manager with the notion of beating the market through picking securities can certainly be done. Usually it is not. The accompanying chart shows the percentage of active managers who outperformed their benchmarks in a variety of equity styles over a period of five years including the GFC (a period

of high volatility during which gospel calls for active management to outperform passive management). This is not to say that an investor can't "choose well" and outperform the market. However, given the fact that we do not have meaningful choices with respect to asset selection available, this note does not address past investment performance or manager quality.

Investment Options

The tables and notes on the following pages set summarize key investment policies for the main investment strategies provided by PARS and CalPERS for their Section 115 Trusts. Expected returns and risk projections for PARS are based on 30-year capital market assumptions provided by Wilshire Associates that have been adjusted by the house. Expected returns and risk projections for CEPPT are developed from CalPERS in-house 10-year projections (which also rely partially on Wilshire Associates capital markets assumptions). 30-year capital market assumptions provided by Wall Street investment advisors are all currently more bullish than 10-year assumptions.

CEPPT Strategy 1

Target Allocation:

Asset Class	Policy Target	Policy Range Relative to Target	Benchmarks:
Global Equity	40%	+/- 5%	MSCI All Country World Index IMI (net)
Fixed Income	47%	+/- 5%	Bloomberg Barclays U.S. Aggregate Bond Index
TIPS	5%	+/- 3%	Bloomberg Barclays U.S. TIPS Index, Series L
REITS	8%	+/- 5%	FTSE EPRA/NAREIT Developed Index (net)
Liquidity	0%	+ 2%	91-day T-Bill
Total	100%		

Expected Geometric Return: 5%

Expected Risk (sigma): 8.2%

Active Risk: CEPPT Investment Policy Calls for Minimizing Tracking Error (i.e. variance from benchmark performance). CalPERS Total Fund Policy (which CEPPT is subject to) is to limit tracking error to 75 bps.

Rebalancing: CalPERS uses dynamic allocation (portfolio insurance) to hedge left side tail risk and a futures overlay programs to allow close adherence to investment targets. There does not appear to be a policy which specifically addresses minimum frequency of rebalancing.

CalPERS CEPPT Strategy 2

Asset Class	Policy Target	Policy Range Relative to Target	Benchmarks:
Global Equity	14%	+/- 5%	MSCI All Country World Index IMI (net)
Fixed Income	73%	+/- 5%	Bloomberg Barclays U.S. Aggregate Bond Index
TIPS	5%	+/- 3%	Bloomberg Barclays U.S. TIPS Index, Series L
REITS	8%	+/- 5%	FTSE EPRA/NAREIT Developed Index (net)
Liquidity	0%	+ 2%	91-day T-Bill
Total	100%		

Expected Geometric Return: 4% (10 Year)

Expected Risk (sigma) 5.2% (10 Year)

Active Risk: CEPPT Investment Policy Calls for Minimizing Tracking Error (i.e., variance from benchmark performance). CalPERS Total Fund Policy (which CEPPT's policy is subject to) is to limit tracking error to 75 bps.

Rebalancing: CalPERS uses dynamic allocation (portfolio insurance) to hedge left side tail risk and a futures overlay programs to allow close adherence to investment targets. There does not appear to be a policy which specifically addresses minimum frequency of rebalancing.

PARS “Conservative Portfolio”

Asset Class	Policy Target	Policy Range Relative to Target	Benchmarks
Global Equity	15%	- 10% /+5%	n/a
Fixed Income	80%	- 20%/+15%	n/a
TIPS	N/A	n/a	n/a
REITS	(.5% included under equity)	n/a	n/a
Liquidity	5%	-5%/+15%	n/a
Total	100%		Blended Benchmark**

Expected Return: 4.668% (30 Year)

Expected Risk (sigma): 3.5% (30 Year)

Active Risk: The strategy is managed to create alpha. Investors can choose either an active management sleeve (investing in mutual funds) or a passive management sleeve (investing in EFTs). In either case, the advisor manages the asset allocation to create tactical advantage by adjusting allocations based on the house view regarding short term market prospects.

Rebalancing: Not less than once per quarter

PARS “Moderately Conservative Portfolio”

Asset Class	Policy Target	Policy Range Relative to Target	Benchmarks
Global Equity	30%	- 10% /+10%	n/a
Fixed Income	65%	- 15%/+15%	n/a
TIPS	N/A	n/a	n/a
REITS	(.5% included under equity)	n/a	n/a
Liquidity	5%	-5%/+15%	n/a
Total	100%		Blended Benchmark**

Expected Return: 5.47% (30 Year)

Expected Risk (sigma): 4.8% (30 Year)

Active Risk: The strategy is managed to create alpha. Investors can choose either an active management sleeve (investing in mutual funds) or a passive management sleeve (investing in EFTs). In either case, the advisor manages the asset allocation to create tactical advantage by adjusting allocations based on the house view regarding short term market prospects.

Rebalancing: Not less than once per quarter

PARS “Moderate Portfolio”

Asset Class	Policy Target	Policy Range Relative to Target	Benchmarks
Global Equity	50%	- 10% /+10%	n/a
Fixed Income	45%	- 5%/+15%	n/a
TIPS	N/A	n/a	n/a
REITS	(.5% included under equity)	n/a	n/a
Liquidity	5%	-5%/+15%	n/a
Total	100%		Blended Benchmark**

Expected Return: 6.33 (30 Year)

Expected Risk (sigma): 7.92 (30 Year)

Active Risk: The strategy is managed to create alpha. Investors can choose either an active management sleeve (investing in mutual funds) or a passive management sleeve (investing in EFTs). In either case, the advisor manages the asset allocation to create tactical advantage by adjusting allocations based on the house view regarding short term market prospects.

Rebalancing: Not less than once per quarter

**PARS does not appear to track performance at asset class level but rather for the entire portfolio using a “Blended Benchmark.” The current Blended Benchmark comprises: 7.5% S&P500, 1.5% Russell Mid Cap, 2.5% Russell 2000, 1% MSCI EM (net), 2% MSCI EAFE (net), 52.25% BBG Barclays US Agg, 25.75% ICE BofA 1-3 Yr US Corp/Gov’t, 2% ICE BofA US High Yield Master II, 0.5% Wilshire REIT, and 5% FTSE 1 Mth US T-Bill

Success Ratio by Expense Ratio Quintile

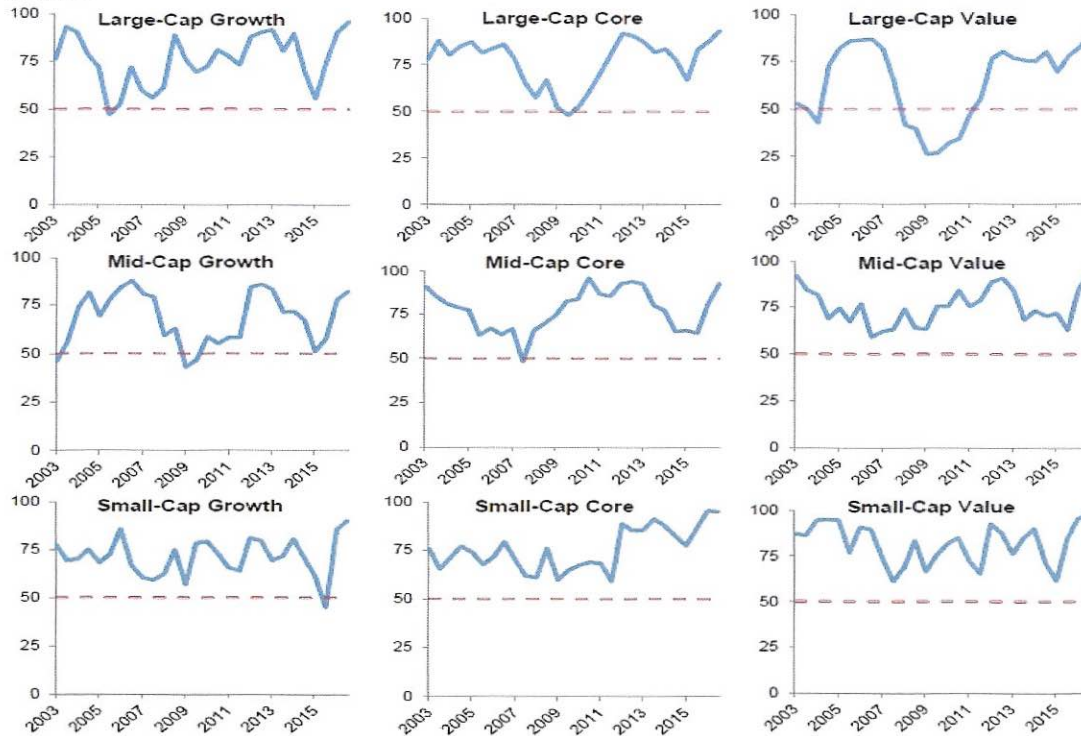
Exhibit 1 Low Costs Are the Path to Success—Subsequent Total Return Success Ratio



Source: Morningstar. Data as of 12-31-2015.

- Five year track record
- Source: Morningstar

Exhibit 3: Percentage of U.S. Equity Funds Outperformed by Benchmark – Based on Rolling 3-Year Returns



Source: S&P Dow Jones Indices LLC. Data as of Dec. 31, 2016.

PARS Section 115 Portfolio Investment Returns

<u>Annualized Gross Returns</u>	<u>Equity Range</u>	<u>1 Yr</u>	<u>3 Yr</u>	<u>5 Yr</u>	<u>10 Yr</u>
Moderate-Active	40%-60%	12.92%	8.45%	8.98%	7.49%
Moderate-Passive		11.23%	7.85%	8.46%	7.28%
Mod. Conservative-Active	20%-40%	10.76%	7.06%	7.12%	5.99%
Mod. Conservative-Passive		9.74%	6.76%	6.76%	5.70%
Conservative-Active	5%-20%	9.03%	6.10%	5.84%	4.75%
Conservative-Passive		8.56%	5.83%	5.35%	4.43%

Annualized Net Returns*

Moderate-Active		12.32%	7.85%	8.38%	6.89%
Moderate-Passive		10.63%	7.25%	7.86%	6.68%
Mod. Conservative-Active		10.16%	6.46%	6.52%	5.39%
Mod. Conservative-Passive		9.14%	6.16%	6.16%	5.10%
Conservative-Active		8.43%	5.50%	5.24%	4.15%
Conservative-Passive		7.96%	5.23%	4.75%	3.83%

*net of 0.25% admin fee (assets up to \$10M) and 0.35% investment fee (assets up to \$5M)

CEPPT Section 115 Portfolio Investment Returns**Annualized Gross Returns**

CEPPT Strategy 1 ("Moderate")	35%-45%	11.49%	n/a	n/a	n/a
CEPPT Strategy 2 ("Conservative")	9%-19%	5.92%	n/a	n/a	n/a

Annualized Net Returns*

CEPPT Strategy 1 ("Moderate")		11.24%	n/a	n/a	n/a
CEPPT Strategy 2 ("Conservative")		5.80%	n/a	n/a	n/a

*net of 0.25% admin fee - no steps

Amber Johnson - Finance

From: Vikki Rodriguez <vikr@mazeassociates.com>
Sent: Friday, March 5, 2021 11:16 AM
To: Amber Johnson - Finance
Subject: RE: [EXTERNAL] 5610.05 GASB 68 Cost-Sharing Calculations Template MD 2019 - Published.xlsx

Hi Amber,

Thanks for sending their explanation!

So.... For GASB 75 – here are some things that I have found so far, but if we wanted to go further, we can make a “technical inquiry” to GASB, but I figure I will let you and the Committee chew on this information first. Then if they’d like to go down the GASB inquiry route, we can assist with that.

The general consensus amongst my audit partners is that – because the City is actually paying the benefits (even if not required by the MOU’s), that there is in essence a “substantive plan” and a “pattern of practice” – so, by providing the benefits, in essence a plan is established and so the liability should be recorded – at least until the City decides to stop or change the practice. Or at least, if it is formally documented between the City and the employees that the benefits can cease at any time.

Here are two excerpts from the GASB codification....

Projection of benefit payments

.117 Projected benefit payments should include all benefits to be provided to current active and inactive employees in accordance with the benefit terms and any additional legal agreements to provide benefits that are in written document is the best evidence of the benefit terms. However, in some cases, the substantive evidence of the benefit terms. Accordingly, other information also should be taken into consideration in determining the benefits to be provided between the employer and employees (active employees and inactive employees) and an established pattern of benefit-related costs with inactive employees. [GASBS 75, ¶149]

.118 Projected benefit payments should include the effects of automatic postemployment benefit changes (automatic COLAs). In addition, projected benefit payments should include the effects of changes, including ad hoc cost-of-living adjustments (ad hoc COLAs) to the extent that they are comparable to (b) projected salary changes (in circumstances in which the OPEB formula incorporates future compensation credits (both in determining an employee’s probable eligibility for benefits and in the projection of benefits under the OPEB formula incorporates years of service). Administrative costs associated with providing OPEB payments. [GASBS 75, ¶150]

And here is an excerpt from the Q&A:

.711 Projection of benefit payments

.711-1 Q—What is meant by the term *substantive plan* in [paragraph .117](#) of this section?

A—The term *substantive plan* is used to describe the terms of the OPEB plan as they are. As noted in paragraph .117 of this section, the substantive plan may differ from the benefit plan. (See Question .711-2 in this section.)

[GASBIG 2017-3, Q4.361]

.711-2 Q—How does the substantive plan for financial reporting purposes relate to the written plan?

A—If a comprehensive plan document exists, that document may provide the best evidence. In some cases, there may not be a comprehensive plan document that fully and accurately represents the plan. For example, a plan document may state generally that the employer will provide benefits, but not specify the types or levels of benefits, the eligibility requirements, or the periods over which benefits will be provided. If the employer may have a long-established practice of providing benefits in addition to what is stated in the plan document, that information should be considered when determining the basis for the projection of benefit payments. Other information that should be considered includes other communications between the employer and the employees and the historical data on benefit-related costs with inactive employees.

[GASBIG 2017-3, Q4.362]

Hope this is helpful for the conversation.

Thank you and take care,

Vik

Vikki C. Rodriguez, CPA
Shareholder / Audit Partner



Office 925-930-0902
Fax 925-930-0135

From: Amber Johnson - Finance <ajohnson@cityofbelvedere.org>
Sent: Tuesday, March 2, 2021 4:55 PM
To: Vikki Rodriguez <vikr@mazeassociates.com>
Subject: RE: [EXTERNAL] 5610.05 GASB 68 Cost-Sharing Calculations Template MD 2019 - Published.xlsx

Hi Vikki,

Thanks so much for sending this. It occurred to me that the discount rate (7.15%) referenced in our CAFR was from the GASB 68 report, but our unique valuation reports from PERS used a different rate (7%). This was part of our confusion

Attachment I

on the discount rate – we were referencing the wrong report. I asked our PERS actuary why the GASB 68 report had a higher discount rate, and this was her answer:

According to the GASB implementation guide, for the purpose of calculating the discount rate, “the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense.” The administrative expense assumption is 0.15%. Since the 7% discount rate is net of investment and administrative expense, the discount rate of 7.15% (which is gross of administrative expense) is used.

Just in case others have a similar question, I thought I’d share the info.

Any progress on understanding what GASB 75 means by “special circumstances”?

Thank you,
Amber

Amber Johnson, CPFO
Administrative Services Manager
City of Belvedere
415.435.8904 (direct)
510.313.8012 (mobile)

*My working hours may not be your working hours. Please do not feel obligated to reply outside of your normal work schedule.

PUBLIC DISCLOSURE NOTICE:

This email and any attached files were sent from an email account assigned to a public official for the City of Belvedere. This email, replies to this email, or emails sent directly to this email account may constitute a public record and, if retained during the normal course of business, may be subject to disclosure to any person upon request.

From: Vikki Rodriguez <vikr@mazeassociates.com>
Sent: Tuesday, February 23, 2021 3:45 PM
To: Amber Johnson - Finance <ajohnson@cityofbelvedere.org>
Subject: [EXTERNAL] 5610.05 GASB 68 Cost-Sharing Calculations Template MD 2019 - Published.xlsx

Hi Amber,

Sorry for the delay – attached is the GASB 68 Cost-Sharing worksheet for last year. Please let me know if you need any other items related to this.

I still owe you the GASB 75 “special circumstances” – hoping to get it over to you by the end of the week.

Thanks,

Vik

Vikki C. Rodriguez, CPA
Maze & Associates

This email has been scanned for email related threats and delivered safely by Mimecast.
For more information please visit <http://www.mimecast.com>
