



GREATER VALLEJO RECREATION DISTRICT

Mission Statement: *Building community and enhancing quality of life through people, parks, and programs.*

Website: www.gvrd.org

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Board of Directors
Rizal Aliga
Ron Bowen
Robert Briseño
Adjoa McDonald
Wendell Quigley

General Manager
Gabe Lanusse

In compliance with the Americans with Disabilities Act, if you are a disabled person and you need a disability-related modification or accommodation to participate in this meeting, please contact the District Office at 707-648-4604 or fax 707-648-4616. Requests must be made as soon as possible and at least three (3) full business days before the start of the meeting.

Budget and Finance Committee Agenda

Directors: Bowen and Briseño

Tuesday October 11, 2022

9:30 a.m.

Administrative Office – Conference Room

401 Amador Street

This committee shall work with the General Manager and other staff of the District on the annual budget(s), projections and other financial matters. This committee shall review the General Manager and Directors' expenses, annual audit and annual financial statement before publication. The committee will ensure that investment policies are followed and that funds are invested in a prudent manner with adequate protections to prevent misuse.

1. Public Comment

Members of the public may speak on any item within the jurisdiction of the Committee. Each speaker is limited to 3 minutes and a spokesperson for an organization is limited to 5 minutes.

2. Pension Funding Policy Draft

3. Debt Management Policy Draft

4. Fiscal Year 2021-2022 Audit Status

5. Measure K Oversight Committee Vacancy

6. Fines for use of Facilities

7. Dashboard for Financial Status

8. Other Post Retirement Benefits (OPEB)

Next Meeting: November 14, 2022

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GREATER VALLEJO RECREATION DISTRICT

Pension Funding Policy

This policy is intended to provide guidance and strategies to current and future Board of Directors for addressing the District's retirement liabilities. The policy includes internal budgeting, policy directives, and financing mechanisms.

The District acknowledges that addressing retirement costs is a dynamic process: unfunded liabilities change each year, due to actual investment performance, changes in actuarial assumptions, changes in benefit levels or criteria, and annual contribution levels. As such, the District will be required to continually monitor its unfunded retirement costs.

These policies are designed to provide a framework for decision-making as well as general guidelines for the application of additional monies or "Additional Discretionary Payments" toward the District's unfunded retirement costs.

Background

The District provides a defined benefit pension plan through the California Public Employees' Retirement System (CalPERS). All qualified full-time District employees are required to participate in CalPERS. CalPERS provides retirement, disability benefits, death benefits, and annual cost of living adjustments to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. A menu of benefit provisions and other requirements is established by State statutes within the Public Employee's Retirement Law.

The District is statutorily required to make payments to CalPERS on an annual basis. The District's annual payments to CalPERS are comprised of two components: Normal Costs and UAL Payments.

Normal Cost – represent the cost of pension benefits earned by current employees for their current year of service. Normal Costs payments are made monthly to CalPERS, which are based on a percentage of payroll.

UAL Payments – represents the shortfall in assets needed to fully fund prior benefits earned by employees and retirees. UAL payments are annual fixed dollar payments required to fund this shortfall.

The District has two (2) pension plans through CalPERS that employees currently have vested pension benefits in:

- **Classic Plan** (2.0% @ 55) -accounts for 98% of the District's pension liability.
- **PEPRA Plan** (Public Employment Pension Reform Act - (2.0% @ 62) – enacted by California Legislation for employees hired and new entrants after January 1, 2013.

Glossary of Terms

1. **Additional Discretionary Payment (ADP)** – An Additional Discretionary Payment (ADP) is an optional payment made to CalPERS to help pay down the pension liability. This payment is in addition to the Normal Cost and UAL Payments that are described in this policy. ADPs serve to reduce the UAL and future required contributions and can result in significant long-term savings.
2. **Amortization Bases** – Separate payment schedules for different portions of the Unfunded Accrued Liability. The separate bases consist of changes in the various factors/assumptions described in the “CalPERS Annual Adjustments to UAL/Amortization Bases” section of this policy. Year-to-year changes to the pension liability are added as new amortization bases by CalPERS.
3. **Classic Plan**– Benefit formula for employees hired prior to January 1, 2013. Employees on the Classic Plan are eligible for retirement benefits starting at age 50 and can receive full retirement benefits at age 55. Final retirement benefits are calculated based on the employee’s final compensation, and years of service.
4. **Discount Rate** – The long-term interest rate used by CalPERS in determining funding for future pension benefits. Also known as the assumed rate of return because it is what CalPERS expects its investments to earn during the fiscal year. CalPERS Board of Administration meets annually to vote on discount rate changes. Lowering the rate generally results in increased employer contributions.
5. **Fresh Start** – A Fresh Start is the re-amortization of one or more of the Unfunded Accrued Liability amortization bases over a shorter period. The goal of a Fresh Start is to reduce the UAL more quickly and provide significant long-term savings.
6. **Funded Status (Funding Ratio)** – Assessment of the need for future employer contributions. This is measured by dividing the District’s Market Value of Assets by its Accrued Liability.
7. **Public Employment Pension Reform Act (PEPRA) Plan (2.0% @ 62)** – Benefit formula for employees hired after January 1, 2013. PEPRA employees are eligible for retirement benefits starting at age 52 and can receive full benefits at age 62.
8. **Unfunded Accrued Liability (UAL)** – Difference between the pension plan liabilities (i.e., money the pension plan owes to current and future retirees) and the pension plan assets (i.e., money coming into the plan via contributions). In other words, it is how much money the pension plan would be short if all benefits for members past and present had to be paid today.
9. **Unfunded Accrued Liability (UAL) Payments** – Amount due to CalPERS to fund the District’s Unfunded Accrued Liability (UAL). This is an annual lump-sum payment made by the District and in addition to the normal contributions (Normal Cost) that are based made by the District and based on a percentage of payroll.

Annual Adjustment to UAL/Amortization Bases

Every August, CalPERS releases a new actuarial valuation report, based on values as of June 30th of the previous year. CalPERS calculates the District's UAL as of this new valuation date, which increases or decreases from year to year, due to changes in the following factors/assumptions:

- Investment Performance – adjustment for investment gains/losses relative to the states CalPERS Discount Rate (6.80%);
- Demographic Performance – adjustments made based on actual performance compared to actuarial assumptions, which includes early/late retirement, disability, mortality, promotion, terminations, etc.
- Actuarial Assumptions - changes in the discount rate, life expectance, rate of inflation, rate of return, etc.);
- Payroll Changes - increase/decrease in number of employees or salary increases or adjustments.

CalPERS accounts for these changes by adding new Amortization Bases each year, adjustments that lower the District's UAL take the form of a "credit". CalPERS amortizes these adjustments over 20 years or less. The District is establishing this Policy to address the existing UAL and any new pension liabilities, or amortization bases, that may arise on an annual basis.

Annual Review

After the release of the most current CalPERS actuarial report, staff shall present a summary of the plan's funding status. This information shall be presented during a public Board meeting, which shall include a summary of funding status, funding progress compared to prior years, as well as any recommended actions and/or budget adjustments.

Target Funding Level

Given the fixed dollar, formula-based pay out associated with a defined benefit pension plan, the funding goal of a defined benefit plan is

Funded Status - Based on the District's most recent Annual Valuation Report as of June 30, 2020, The Classic Plan's UAL is equal to \$6,045,851 or 69.5%, while the UAL for PEPRA employees is 88.8% or \$109,649.

The District's CalPERS pension plan is expected to be fully funded after the issuance of pension obligation bonds and credit for investment returns in FY21. Going forward, the District shall seek to maintain its pension fund fully funded. The District shall target a minimum funding level of 90% and upper range of 110%.

Allocation of Additional Resources / ADPs

The District seeks to maintain adequate levels of reserves in accordance to its stated reserve goals and adopted reserve policies. To the extent that the District has a UAL, it shall endeavor to use excess reserves, unspent budget monies, unspent proceeds for a capital project, and/or other one-time revenues in the following order:

First, to retain sufficient monies to meet District's stated reserve targets; and

Second, to meet any board-determined priority; and

Third, to pay-off all of or a significant portion of its unfunded liability.

The District shall endeavor to apply available monies toward its unfunded retirement costs in the form of Additional Discretionary Payments (ADP to CalPERS), utilizing Targeting Strategies outlined below.

UAL pension funding decisions, shall be made on a case-by-case basis each year by the General Manager, subject to Board Approval.

Targeting Strategies

To maximize interest costs savings, the District shall apply ADPs toward the Amortization Bases with the longest remaining term (maturity). Should the District seek to optimize budgetary (cash flow) impact, it should seek to apply these monies toward the Amortization Bases with the shortest term, and/or retain in a restricted reserve intended to serve as a pension stabilization fund. Specific recommendations regarding how much monies to apply toward unfunded pension shall be provided by District staff.

All pre-funding decisions will require detailed financial analysis to be performed; and shall include proper documentation of the analysis, methodology, and decision-making process.

STRATEGIES

The District has a number of different financing strategies available to address its pension liabilities. The District should seek to utilize one or more of the following strategies:

- 1. Use of Reserves and One-Time Monies** – The District maintains reserves comprised of unrestricted and restricted reserves. The District's Reserve Policy is to maintain target levels in unrestricted reserves towards the potable, non-potable and wastewater operation and emergency reserves, and capital replacement funds. To the extent the District has an UAL, it shall endeavor to apply excess monies in its reserves to pay-off its UAL, unless an alternative use of such monies presents a greater opportunity cost.
- 2. Salary/Benefit Cost Containment** – During consideration of employee raises, District staff shall take into consideration the impact of any raises on employee contribution levels to the Normal CalPERS costs and the UAL. District staff shall perform an analysis of the projected financial impact of proposed salary /benefit increases to the

District's Pension Costs. This information shall be presented to the Board of Directors for their consideration.

CalPERS assume that wages will increase by 2.75%, on average, over time. This measure should serve as a benchmark for analysis. Any analysis should not measure salary/wage growth on an individual year, but rather over a long-term basis.

3. Pension Obligation Bonds – The District may use bonds to “refinance” a portion of its unfunded pension or OPEB liability. Bonds should be issued as part of a long-term plan to address the District's unfunded liabilities. Since these bonds are issued on a taxable basis, they carry a higher interest rate than traditional municipal “tax-exempt” debt. The District shall adhere to the following general criteria to address GFOA concerns:

- The bonds shall not be structured to defer payments or extend the final maturity date.
- Bonds shall be structured with standard call provisions (e.g., 100%-102% in 10 years)
- Bonds shall not finance current or normal costs; they shall only be used to refinance unfunded pension and OPEB liabilities.
- The interest rate on bonds shall be at least 2.0% less than the current /projected CalPERS Discount Rate.
- Bonds should provide demonstrated cash flow savings - a target minimum of 10% NPV savings (except for refunding bonds).

4. Creation of CalPERS Liability Fund – The District shall consider creating a Pension Stabilization Fund, which sets aside excess monies, to address additional bases created by CalPERS when its investments do not make its projected earnings or to make Additional Discretionary Payments. The District may seek to invest such monies in a 115 Trust, to allow the District to more closely match the investment options to the pension liabilities.

These policies are intended to provide general guidelines. Each individual decision shall require analysis and review on a case-by-case basis. This policy document is intended to serve as a living documents, which will require periodic review and updated to take into account changes in the District's financial position and funding status.

The District's Pension Funding Policy shall be adopted (and revised) by Resolution.

DEBT MANAGEMENT POLICY

This Debt Management Policy (the “Debt Policy”) of the Greater Vallejo Recreation District (the “District”) was approved by its Board of Directors on May 26, 2022. The Debt Policy may be amended by the Board of Directors as it deems appropriate from time to time in the prudent management of its debt. Any approval of debt by the District Council that is not consistent with this Debt Policy shall constitute a waiver of this Debt Policy.

1. Findings

This Debt Policy is intended to comply with Government Code Section 8855(i), effective on January 1, 2017, and shall govern all debt undertaken by the District.

The District hereby recognizes that a fiscally prudent debt policy is required in order to:

- Maintain the District’s sound financial position.
- Ensure the District has the flexibility to respond to changes in future service priorities, revenue levels, and operating expenses.
- Protect the District’s credit worthiness. Ensure that all debt is structured in order to protect both current and future taxpayers, customers and constituents of the District.
- Ensure that the District’s debt is consistent with the District’s planning goals and objectives and capital improvement program or budgets, as applicable.

2. Policies

A. Purposes For Which Debt May Be Issued

Long-Term Debt. Long-term debt may be issued to finance the construction, acquisition, and rehabilitation of capital improvements and facilities, equipment and land to be owned and operated by the District.

(a) Long-term debt financings are appropriate when the following conditions exist:

- When the project to be financed is necessary to provide basic services.
- When the project to be financed will provide benefit to constituents over multiple years.
- When total debt does not constitute an unreasonable burden to the District and its taxpayers and its customers.
- When the debt is used to refinance outstanding debt in order to produce debt service savings or to realize the benefits of a debt restructuring.

(b) Long-term debt financings will not generally be considered appropriate for current operating expenses and routine maintenance expenses.

(c) The District may contemplate the following debt structure considerations:

Final Maturity - The final maturity of the debt shall not exceed, and preferably be less than, the remaining useful life of the assets being financed. To comply with Federal tax regulations, the average life of a financing shall not exceed 120% of the average life of the assets being financed.

Debt Service - Payments should be structured with level debt service payments over the life of the debt. The District may also structure the amortization of principal to wrap around existing obligations or back-loaded to achieve other financial planning goals. In general, deferring the repayment of principal should be avoided except in select instances where it will take a period of time before project (dedicated) revenues are sufficient to pay debt service.

Method of Sale – Working in conjunction with its financial advisor, the District will select a method of sale: competitive sale, negotiated sale or private placement. The District will determine the most appropriate method taking into account size/structure/credit consideration, current capital market conditions, and other financial, transaction-specific and policy considerations.

Lien Structure - Senior and subordinate liens will be utilized in a manner that will optimize either debt service or bonding capacity, allowing for the most beneficial leverage of revenues.

Capitalized Interest - The District may elect to fund capitalized interest in connection with the construction of certain projects when revenues from the project will not be available until completion.

Reserve Funds – A debt service reserve fund (DSR) may be required for rating or marketing reasons. If available, a DSR can be funded with a surety policy or letter of credit from a bank or bond insurance company. The reserve may be funded from 1) the proceeds of a debt issue or 2) the reserves of the District. A cash reserve fund will be invested pursuant to the investment restrictions associated with the respective financing documents. For each debt issue, staff will evaluate net borrowing cost of the financing with a DSR or surety policy, taking into consideration the investment of the DSR over the life of the issue.

Redemption Provisions – The District shall seek to structure each issue with an optional redemption or call provision, unless the final maturity is less than 10 years. Redemption provisions will be established on a case-by-case basis, taking into consideration market conditions and the results of a call option analysis prior to the time of sale. Because the issuance of non-callable debt may restrict future financial flexibility, cost will not be the sole determinant in the decision to issue non-callable debt.

Ratings - The District's objective is to maintain or improve its credit ratings as a way of reducing financing costs. The General Manager shall be responsible for implementing and managing the District's credit rating agencies relations program. This effort shall include providing the rating agencies with the District's annual budget, financial statements, and other information they may request. Staff should coordinate periodic meetings with the rating agencies and communicate with them prior to each debt issuance.

Credit Enhancement – Bond insurance will be used when it provides an economic advantage to a particular debt maturity or the entire issue. The District will evaluate

the availability and cost/benefit of credit enhanced debt versus unenhanced debt prior to issuing any debt.

Variable Rate Debt – The District shall seek to utilize long-term fixed rate bonds. However, the District may consider issuing variable rate bonds. In managing its variable rate debt, staff will regularly monitor the market for credit enhancement, particularly liquidity facilities provided by credit enhancement providers and alternative variable rate products and the use of alternative variable rate instruments that do not require credit enhancement. The District should seek to diversify its exposure to banks when selecting institutions to provide liquidity or credit enhancement for variable rate debt.

Short-term debt. Short-term debt may be issued to provide financing for the District’s operational cash flows in order to maintain a steady and even cash flow balance. Short-term debt may also be used to finance short-lived capital projects; for example, the District may undertake lease-purchase financing for equipment.

B. Types of Debt

For purposes of this Debt Policy, “debt” shall be interpreted broadly to mean loans, bonds, notes, certificates of participation, financing leases, or other financing obligations, but the use of such term in this Debt Policy shall be solely for convenience and shall not be interpreted to characterize any such obligation as an indebtedness or debt within the meaning of any statutory or constitutional debt limitation where the substance and terms of the obligation comport with exceptions thereto.

The following types of debt are allowable under this Debt Policy:

- general obligation bonds
- bond or grant anticipation notes
- lease revenue bonds, certificates of participation and lease-purchase transactions
- state or federal loans,
- loans and lines of credit with banks and other long-term financial institutions
- Pension Obligation Bonds
- refunding of any of the prior listed obligations or other long-term prior financial commitments

The District may from time to time find that other forms of debt would be beneficial to further its public purposes and may approve such debt without an amendment of this Debt Policy.

Debt shall be issued as fixed rate debt unless the District makes a specific determination as to why a variable rate issue would be beneficial to the District in a specific circumstance.

C. Relationship of Debt to Capital Improvement Program and Budget

The District intends to issue debt for the purposes stated in this Debt Policy and to implement policy decisions incorporated in the District's capital budget and the capital improvement plan.

The District shall strive to fund the upkeep and maintenance of its infrastructure and facilities due to normal wear and tear through the expenditure of available operating revenues.

The District shall seek to avoid the use of debt to fund infrastructure and facilities improvements that are the result of normal wear and tear.

The District shall integrate its debt issuances with the goals of its budget (and capital improvement costs) by timing the issuance of debt to ensure that proceeds are available when needed in furtherance of the District's public purposes.

The District shall seek to avoid the use of debt to fund infrastructure and facilities improvements in circumstances when the sole purpose of such debt financing is to reduce annual budgetary expenditures.

The District shall seek to issue debt in a timely manner to avoid having to make unplanned expenditures for capital improvements or equipment from its general fund.

D. Policy Goals Related to Planning Goals and Objectives

The District is committed to long-term financial planning, maintaining appropriate reserve levels, and employing prudent practices in governance, management and budget administration. The District intends to issue debt for the purposes stated in this Policy and to implement policy decisions incorporated in the District's annual operations budget.

It is a policy goal of the District to protect taxpayers, ratepayers, customers, and constituents by utilizing conservative financing methods and techniques so as to obtain the highest practical credit ratings (if applicable) and the lowest practical borrowing costs.

The District will comply with applicable state and federal law as it pertains to the maximum term of debt and the procedures for levying and imposing any related taxes, assessments, rates and charges.

When refinancing debt, it shall be the policy goal of the District to do so either for the purpose of realizing debt service savings or for the purpose of restructuring debt in a manner which is in the best financial interests of the District.

Any refinancing of debt for the purpose of realizing debt service savings should seek achieve a minimum net present value debt service savings equal to or greater than 3.0% of the refunded principal amount. The 3.0% threshold should serve as a **guideline**, the District may refinance outstanding bonds in order to meet certain policy/financial objectives, such as: removing restrictive covenants, reshaping debt profile or budgetary/cash flow relief, unique financial circumstances or historically low interest rates, and limit term to maturity.

E. Internal Control Procedures

Use of Financial Advisor – In accord with the Government Finance Officers Association (GFOA) recommendation, the District should retain an independent registered municipal advisor (financial advisor) when it is contemplating the issuance of bonds (during the initial planning phase). The

financial advisor shall assist the District in evaluating all financing options, assembling the other members of the financing team and facilitate the bond issuance process. The financial advisor shall provide objective advice and analysis, maintain confidentiality of District financial plans, and fully disclose any potential conflicts of interest.

The District will comply with all financing covenants to maintain the validity of the issuance of debt, including, but not limited to tax-exemption, arbitrage rebate compliance, insurance provisions, reporting and monitoring requirements. The District will ensure compliance with all continuing disclosure requirements as part of its ongoing debt program. Any instance of noncompliance will be reported to the Board of Directors.

The District will periodically review the requirements of and will remain in compliance with the following:

- any continuing disclosure undertakings under SEC Rule 15c2-12,
- any federal tax compliance requirements, including without limitation arbitrage and rebate compliance, related to any prior bond issues, and
- the District's investment policies as they relate to the investment of bond proceeds.

It is the policy of the District to ensure that proceeds of debt are spent only on lawful and intended uses. Whenever reasonably possible, proceeds of debt will be held by a third-party trustee and the District will submit written requisitions for such proceeds.

The District shall seek to borrow tax-exempt proceeds that can be reasonably spent within the IRS spending requirements (e.g. 85% within 3 years).

The District will submit a requisition only after obtaining the signature of the District Manager. In those cases where it is not reasonably possible for the proceeds of debt to be held by a third-party trustee, the person performing the function of chief financial officer of the District shall retain records of all expenditures of proceeds through the final payment date for the debt.