Livermore Area Recreation and Park District
Staff Report

TO:	Chair Pierpont and Board of Directors
FROM:	Mathew Fuzie, General Manager
PREPARED BY:	Jeffrey Schneider, Administrative Services Manager
DATE:	May 26, 2021
SUBJECT:	New Policy – Pension Funding – FIN-01-0001; and New Policy – Debt Management – FIN 01-0002

RECOMMENDATION: That the Board of Directors adopt a resolution to implement the District's proposed policies: Pension Funding, FIN-01-0001 and Debt Management, FIN-01-0002.

BACKGROUND:

The creation of these policies is a necessary component of the District's preparation for the possible issuance of Pension Obligation Bonds, for reasons outlined below. These policies were drafted in conjunction with the District's Bond Counsel (Jones Hall) and Financial Advisors (PFM Financial Advisors, LLC).

FIN-01-0001 Pension Funding Policy

This policy documents the method the District will use to ensure the funding of its actuarially determined contributions in support of the current and future cost of benefits owed to plan participants and/or their beneficiaries. As proposed, the policy does not mandate the establishment of a Pension Reserve Fund (PRF), but that the District consider such a fund as it could be used at the District's discretion to help offset future pension cost increases or to defease any outstanding pension obligation bonds. This policy also:

A. Provides guidance in making annual budget decisions;
B. Demonstrates prudent financial management practices;
C. Creates sustainable and affordable budgets for pensions;
D. Reassures bond rating agencies; and
E. Shows employees and the public how pensions will be funded.

FISCAL IMPACT
None.

FIN-01-0002 Debt Management Policy

Senate Bill 1029 (SB 1029), which became effective on January 1, 2017, amended California Government Code 8855 to add certain requirements related to the issuance and administration of debt by local agencies, including requiring the adoption of a debt policy meeting the requirements of California Government Code 8855. This impacts issuance of bonds by the District: if a new debt issuance is to proceed, adoption of the debt policy by the governing body of the District is required for compliance with the new legislation.

In connection with consideration of the issuance of bonds by the District, bond counsel for the District will need to submit to the California Debt and Investment Advisory Commission (CDIAC) a preliminary report of debt issuance which now requires an affirmation that a debt policy addressing certain matters addressed by the Government Code has been adopted by the issuing entity. Part of the preliminary report of debt issuance is a certification that the applicable District has adopted a debt policy that meets the requirements of the new legislation.

In accordance with Government Code 8855, a local debt policy must include all of the following:

A. The purposes for which the debt proceeds may be used.
B. The types of debt that may be issued.
C. The relationship of the debt to, and integration with, the issuer's capital improvement program or budget, if applicable.
D. Policy goals related to the issuer's planning goals and objectives.
E. The internal control procedures that the issuer has implemented, or will implement, to ensure that the proceeds of the proposed debt issuance will be directed to the intended use.

The contemplated debt management policy meets all of the above requirements.

FISCAL IMPACT
None.

Attachments:

A. Proposed Pension Funding Policy
B. Proposed Debt Management Policy
C. Board Resolution

ATTACHMENT A

Policy No. FIN-01-0001

PENSION FUNDING POLICY

PURPOSE OF POLICY	To document the method the District will use to ensure the funding of its actuarially determined contributions in support of the current and future cost of benefits owed to plan participants and beneficiaries.
POLICY SUMMARY	This policy guides how the District will ensure the funding of current and future pension fund costs for participating employees and their beneficiaries.
APPROVAL	

I. PURPOSE

To document the method the District will use to ensure the funding of its actuarially determined contributions in support of the current and future cost of benefits owed to plan participants and/or their beneficiaries. The policy also:

- Provides guidance in making annual budget decisions;
- Demonstrates prudent financial management practices;
- Creates sustainable and affordable budgets for pensions;
- Reassures bond rating agencies; and
- Shows employees and the public how pensions will be funded.

II. BACKGROUND

The District provides defined benefit retirement benefits through the Alameda County Employees' Retirement Association (ACERA). ACERA is a multiple-employer, public employee defined benefit pension plan. ACERA acts as a common investment and administrative agent for participating public entities within Alameda County. Benefit provisions and all other requirements are established by state statute.

Employees in certain full-time and part-time benefited job classifications participate in the ACERA pension plan. ACERA provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members and their beneficiaries. Participants have the opportunity to enroll in medical, dental, and vision plan coverage (Other Post-Employment Benefits, or OPEB). Additionally, members may be eligible for subsidies to offset the costs of these plans.

The financial objective of a defined benefit pension plan is to fund the long-term cost of benefits provided to plan participants. To ensure that the plan is financially sustainable, the plan should accumulate adequate resources in a systematic and disciplined manner over the active service life of benefitting employees. This funding policy outlines the method the District will utilize to ensure that it adequately provides for the funding of its actuarially determined contributions towards the long-term cost of benefits to the plan participants and/or their beneficiaries.

Pension Funding: A Guide for Elected Officials, issued by eleven national groups including the U.S. Conference of Mayors, the International District/County Management Association, and the Government Finance Officers Association, established the following five general policy objectives for a pension funding policy:

- Actuarially Determined Contributions. A pension funding plan should be based upon an actuarially determined contribution (ADC) that incorporates both the cost of benefits in the current year and the amortization of the plan's unfunded actuarial accrued liability.

- Funding Discipline. A commitment to make timely, actuarially determined contributions to the retirement system is needed to ensure that sufficient assets are available for all current and future retirees.

- Intergenerational equity. Annual contributions should be reasonably related to the expected and actual cost of each year of service so that the cost of employee benefits is paid by the generation of taxpayers who receives services from those employees.

- Accountability and transparency. Clear reporting of pension funding should include an assessment of whether, how, and when the plan sponsor will ensure sufficient assets are available for all current and future retirees.

III. POLICY

A. Actuarially Determined Contribution (ADC)

ACERA actuaries will determine the District's ADC to ACERA based on annual actuarial valuations. The ADC will include the normal cost for current service and amortization of any under-funded amount. The normal cost will be calculated using the entry age normal cost method using economic and non-economic assumptions approved by the ACERA Board of Retirement.

The District will consider the periodic review of ACERA's annual actuarial valuations to validate the completeness and accuracy of the member census data and the reasonableness of the actuarial assumptions.

B. Additional Discretionary Payment (ADP) Contribution

The District will consider making ADP contributions with one-time General Fund and/or Pension Reserve Fund (if applicable – see section D, below) resources, with the objectives of increasing the plan's funded status, by reducing the unfunded actuarially accrued liability, and reducing ongoing pension costs.

C. Pension Obligations Bonds

The District will consider pension obligation bonds if:

- Such bonds have expected savings through favorable borrowing costs relative to ACERA' discount rate.
- At the time of issuance, pension obligation bond proceeds plus existing assets at ACERA and, if applicable, in the District's Pension Reserve Fund cannot exceed pension liabilities.
- The District will use a municipal advisor to discuss and consider the risks of any potential pension obligation bonds.
- Any pension obligation bonds, or refundings of pension obligation bonds, must be voted upon by the District Board.

D. Pension Reserve Fund

The District will consider a funding mechanism for the establishment of a Pension Reserve Fund (PRF) to be used at the District's discretion to help offset future pension cost increases or to defease any outstanding pension obligation bonds.

- Such a policy will establish a defined percentage of the annual savings generated through the issuance of a pension obligation bond that shall be deposited into the fund. Savings are defined as the difference between the debt service on the District's pension obligation bonds and the scheduled annual payments of any under-funded amount had pension obligation bonds not been issued.
- This Fund may take the form of a Section 115 Trust.
- The Fund may be used to:
  - Defease outstanding pension obligation bond maturities at any time, in whole or part;
  - Pay annual debt service on pension obligation bonds;
  - Make additional discretionary payments to ACERA;
  - Reduce annual UAL costs.
- In the event of an economic hardship, or other unanticipated fiscal emergency, the District's Board of Director's may make an emergency declaration to reduce the annual transfer to the PRF, only if the combined funds in the Emergency Reserve (minimum 2% of annual operating budget) and the Budget Stabilization Reserve (minimum 8%) drop below the minimums stated levels in the District's Fund Balance Reserve Policy.

E. Contributions as a Manageable Budget Expense

The District will always make its required annual contributions to ACERA. Contributions will be, at a minimum, based on annual actuarially driven contribution rates provided by ACERA and distinctly reflected in the District's annual operating budget. The District may:

- Make additional discretionary contributions directly to ACERA;
- Make discretionary contributions to a pension reserve fund;
- Make discretionary withdrawals from a pension reserve fund to make payments to ACERA; and
- Issue, call, or refund pension obligation bonds.

F. Transparency and Reporting

Funding of the District's pension plans should be transparent to vested parties including plan participants, beneficiaries, the District Board, and residents. To achieve this transparency, the following information shall be available:

- Copies of the annual actuarial valuations for the District's ACERA plans shall be made available to the District Board.
- The District's financial audit shall be published on its website. This report includes information on the District's annual

contributions to the pension systems and their funded status.

- The District's annual operating budget shall include the District's contributions to ACERA.

G. Review of Funding Policy

Funding a defined benefit pension plan requires a long-term horizon. As such, the District will review this policy at least every two years to determine if changes to this policy are needed to ensure adequate resources are being accumulated.

Board Resolution No. ______

Adopted May 26, 2021

APPROVAL

Phillip Pierpont Chair, Board of Directors	Date
Mathew Fuzie General Manager	Date

ATTACHMENT B

Policy No. FIN-01-0001

DEBT MANAGEMENT POLICY

PURPOSE OF POLICY	To help maintain the District's financial health, ensure the District has the flexibility to meet its financial needs, and protect the District's credit-worthiness.
POLICY SUMMARY	To comply with Government Code Section 8855(i), which became effective on January 1, 2017, and govern all debt undertaken by the District.
APPROVAL	

This Debt Management Policy (the "Debt Policy") of the Livermore Area Recreation and Park District (the "District") may be utilized by staff with the discretion to deviate as determined appropriate by the General Manager and may be amended by the Board of Directors of the District as it deems appropriate from time to time in the prudent management of the debt and financing needs of the District.

I. PURPOSE

This Debt Policy is intended to comply with Government Code Section 8855(i), which became 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:

- Help maintain the District's financial health.
- Ensure the District has the flexibility to meet its financial needs.
- Protect the District's creditworthiness.
- Ensure that all debt is structured to benefit both current and future constituents of the District.
- Ensure that the District's debt is consistent with the District's planning goals and objectives.

II. POLICY

A. Purposes for Which Debt May Be Issued

(i) Long-Term Debt. Long-term debt may be issued to finance the construction, acquisition, and/or rehabilitation of capital improvements and facilities, property and other assets, equipment and land to be owned and operated by the District or funded for the benefit of the District, as well as to manage the District's other long-term obligations, including with respect to pension benefits provided by the Alameda County Employees' Retirement Association (ACERA).

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

- When the project or asset to be financed is necessary or beneficial to providing service.
- When the project or asset 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 constituents.
- When the debt is issued to refinance outstanding debt in order to produce savings or to realize other benefits of a debt restructuring.

(b) The District may use long-term debt financings subject to the following conditions:

- The project and/or costs to be financed must be approved by the District Board.
- The District estimates that sufficient revenues will be available to service the debt through its maturity.
- The District determines that the issuance of the debt will comply with the applicable state and federal law.

(ii) 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 or provide interim funding for capital projects. For example, the District may undertake lease-purchase financings for equipment.

B. Types of Debt

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

(a) Installment sale agreements, loans and similar debt-financing contracts

(b) Loans and contracts with State or Federal agencies, including the United States Department of Agriculture–Rural Development

(c) Lines of credit

(d) General obligation bonds (GO Bonds)

(e) Bond or grant anticipation notes (BANs)

(f) Lease financings

(g) Pension obligation bonds, and other revenue bonds or certificates of participation (COPs)

(h) Tax and revenue anticipation notes (TRANs)

(i) Land-secured financings, such as special tax revenue bonds issued under the Mello-Roos Community Facilities Act of 1982, as amended, and limited obligation bonds issued under applicable assessment statutes

(j) Refunding bonds, notes, loans, and other obligations

(ii) The District Board 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.

(iii) The District shall not issue variable rate debt. The District will not utilize derivative products.

(iv) Long-Term Debt Parameters:

(a) *New Money Issuances*: The District will also consider credit issues, market factors (e.g., bank qualification) and tax law when sizing the District's debt issuance.

(b) *Refunding Bond Issuances*: The sizing of refunding securities will be determined by the amount of money that will be required to cover the principal of accrued interest (if any) on, and redemption premium for the bonds to be defeased on the call date and to cover appropriate financing costs.

(c) *Maximum Maturity*: All debt issued by the District shall mature **within 30** years of the issuance date. The final maturity of bonds will also be limited to the average useful life of the assets financed or as otherwise required by tax law. The District may consider a separate series of bonds to fund projects with an average useful life of less than 10 years.

(d) *Maximum Repayment Ratio*: The maximum repayment ratio, where total future debt service payments are divided by the principal of the bonds issued, shall be within **three to one** for each series of bonds and for each issuance.

(e) Capital Appreciation Debt: The District shall issue all debt as current interest securities. Specifically, the District will not issue any capital appreciation securities or any hybrid structures such as convertible capital appreciation securities.

(v) Refunding Parameters: Whenever deemed to be in the best interest of the District, the District shall consider refunding or restructuring outstanding debt when financially advantageous or beneficial for debt repayment and structuring flexibility. The General Manager or Administrative Service Manager shall review a net present value analysis of any proposed refunding in order to make a determination regarding the cost-effectiveness of the proposed refunding.

(a) The minimum net present value savings as a percentage of the refunded aggregate principal amount to be considered for refunding shall be no less than **3%** in aggregate unless, at the discretion of the General Manager or Administrative Service Manager , a lower percentage is more applicable, for situations including, but not limited to, maturities with only a few years until maturity or Certificates of Participation (COPs) being defeased or redeemed from proceeds of Bonds or other structuring considerations.

(b) The final maturity of the refunding debt shall be no longer than the final maturity of the refunded debt.

C. Relationship of Debt to Capital Improvement Program and Budget

(i) The District is committed to long-term capital planning. 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. Items outside the capital budget or capital improvement plan may also be financed.

(ii) 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.

(iii) The District shall integrate its debt issuances with the goals of its capital improvement program and other budgeting processes by timing the issuance of debt to ensure that funding is available for capital and non-capital projects when needed in furtherance of the District's public purposes.

D. Policy Goals Related to Planning Goals and Objectives

(i) The District is committed to long-term financial planning, maintaining appropriate reserve levels and employing prudent practices in governance, management and budget administration.

(ii) The District intends to issue debt for the purposes stated in this Debt Policy and to implement policy decisions set forth by the District Board.

(iii) It is a policy goal of the District to protect its 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.

(iv) 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.

(v) When refinancing debt, it shall be the policy goal of the District to realize, whenever possible, and subject to any overriding non-financial policy considerations, minimum net present value debt service savings equal to at least 3.0% of the refunded principal amount.

E. Internal Control Procedures and Continuing Disclosure Compliance

(i) When issuing debt, in addition to complying with the terms of this Debt Policy, the District shall comply with any other applicable policies regarding initial bond disclosure, continuing disclosure, post-issuance compliance, and investment of bond proceeds.

(ii) The District will only issue debt subject to authorization by resolution of the Board of Directors for each debt issue consistent with applicable State law. The resolution authorizing each debt issue will specify the maximum not-to-exceed amount for each debt issue and may include other terms or requirements as deemed appropriate by the District.

(iii) Without limiting the foregoing, the District will periodically review the requirements of and will remain in compliance with the following:

(a) Any continuing disclosure undertakings entered into by the District in accordance with Securities and Exchange Commission (SEC) Rule 15c2-12 (in connection with a public offering) or required by a lender (in connection with a private placement)

(b) Any reporting obligations to the California Debt and Investment Advisory Commission (CDIAC)

(c) Any federal tax compliance requirements, including, without limitation, arbitrage and rebate compliance.

(d) The District's investment policies as they relate to the use and investment of bond proceeds.

(iv) The Administrative Services Manager (or his or her designee) shall be the officer primarily responsible for compliance by the District with its continuing disclosure undertakings and obligations, as well as the preparation of official statements and other disclosure documents of the District. The District may hire outside third parties to assist the District with its federal securities law compliance obligations.

(v) Proceeds of debt will be held either (a) by a third-party trustee or fiscal agent, which will disburse such proceeds to or upon the order of the District upon the submission of one or more written requisitions by the General Manager (or his or her designee), or (b) by the District, to be held and accounted for in a separate fund or account, the expenditure of which will be carefully documented by the District.

F. Annual Review

(i) The General Manager or Administrative Service manager will be involved in the annual review of the bond program and this Policy. The annual review will occur in conjunction with the filing of the District's annual continuing disclosure report.

Board Resolution No. ______

Adopted May 26, 2021

APPROVAL

____________________________ ______________________

Phillip Pierpont Date

Chair, Board of Directors

____________________________ ______________________

Mathew Fuzie Date

General Manager

ATTACHMENT C

THE BOARD OF DIRECTORS
OF THE
LIVERMORE AREA RECREATION AND PARK DISTRICT

RESOLUTION NO. _____

A RESOLUTION APPROVING AND ADOPTING A DEBT MANAGEMENT POLICY AND PENSION FUNDING POLICY IN CONNECTION WITH FUTURE CONSIDERATION OF THE ISSUANCE AND SALE OF PENSION OBLIGATION BONDS TO REFUND OUTSTANDING OBLIGATIONS OF THE DISTRICT TO THE ALAMEDA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION (ACERA)

WHEREAS, the Livermore Area Recreation and Park District (the "District") is a member of the Alameda County Employees' Retirement Association ("ACERA"), and as such the District is obligated by the County Employees Retirement Law of 1937, being Article 1 of Chapter 3 of Part 3 of Division 4 of Title 3 of the Government Code (section 31450 et seq.), implementing regulations of Alameda County for ACERA, being Chapter 3.68 of the Alameda County Administrative Code (section 3.68.010 et seq.), and related resolutions and actions (collectively, the "Retirement Law"), to make payments to ACERA relating to pension benefits accruing to current and former District employees (the "ACERA Obligations"); and

WHEREAS, the District currently has an unfunded actuarial accrued liability in respect of the ACERA Obligations; and

WHEREAS, the Board anticipates that it may consider at a future meeting the issuance of bonds for the purpose of refunding certain outstanding obligations of the District, including the ACERA Obligations; and

WHEREAS, Senate Bill 1029 (SB 1029), which became effective on January 1, 2017, amended California Government Code 8855 to add certain requirements related to the issuance and administration of debt by local agencies such as the District, including the adoption of a debt policy meeting the requirements of California Government Code 8855; and

WHEREAS, the Board wishes at this time to approve a debt policy that is compliant with California Government Code 8855 to provide guidance regarding future issuances of debt by the District; and

WHEREAS, the Board wishes at this time to approve a pension funding policy to guide the District in the funding of its actuarially determined contributions in support of the current and future cost of benefits owed to plan participants and/or their beneficiaries.

NOW, THEREFORE, BE IT RESOLVED:

Section 1. **Adoption of Debt Policy**. The Board hereby approves and adopts the Debt Management Policy in the form presented to the Board. The Debt Management Policy shall guide the issuance and administration of debt issued by the District, all in accordance with the guidelines and conditions set forth in such policy.

Section 2. **Adoption of Pension Funding Policy**. The Board hereby approves and adopts the Pension Funding Policy in the form presented to the Board. The Pension Funding Policy shall guide the administration of pension obligation funding by the District, all in accordance with the guidelines and conditions set forth in such policy.

Section 3. **Effective Date**. This Resolution shall take effect immediately upon the approval and adoption thereof by the Board.

ON MOTION of Director ______, seconded by Director _____, the foregoing resolution was passed and adopted this _____ day of _______, 2021, by the following roll call vote:

AYES:
NOES:
ABSTENTIONS:
ABSENT:

Approved this ___ day of _____, 2021,

____

Philip Pierpont
Chair, Board of Directors

ATTEST:

____

Mathew L. Fuzie
General Manager and ex-officio Clerk
to the Board of Directors