SAN FRANCISCO BAY AREA RAPID TRANSIT DISTRICT

PENSION FUNDING POLICY

AS ADOPTED March 28, 2019

The San Francisco Bay Area Rapid Transit District ("District") has an important responsibility to its riders, the citizens of the Bay Area, and its employees and retirees to manage its CalPERS pension costs and liabilities both in the short term and the long term. It is especially important that the District be able to meet its obligations to make required employer contributions to CalPERS ("CalPERS Contributions"), even in times of economic change and uncertainty. In order to understand the potential for dramatic increases in CalPERS Contributions, the District Board and staff have spent over a year consulting with an outside independent actuary to analyze the trends and drivers of such contributions for the District. The Board and staff have also fully analyzed and considered the various tools available to the District to help it meet its anticipated obligations for CalPERS Contributions. Based on this extensive analysis and its commitment to make all CalPERS Contributions as they come due, the District will establish the following goals and strategies for funding its CalPERS pension obligations:

GOALS

A. Pay all CalPERS Contributions fully and on a timely basis.

B. Establish and maintain reserves sufficient to ensure that the District can satisfy its obligations to make CalPERS Contributions and adjust to economic downturns.

C. Manage District funds and resources to lower overall CalPERS liabilities when appropriate.

STRATEGIES

1. Review the District's CalPERS Contributions annually during the annual budget process and adopt a budget that includes adequate funding to meet the required pension contributions.

2. At least biennially, update 10-year projections of expected future CalPERS Contributions and incorporate them into the District's financial projections. As part of such biennial review, analyze whether making additional payments towards the District's unfunded actuarial liability would be appropriate.

3. Establish a supplemental pension fund, in the form of an Internal Revenue Code section 115 trust ("Trust") or join an established group Trust with multiple employers, to accumulate monies to be used to fund future pension obligations.

    a. Contributions to the Trust shall be recommended by District staff, included in the annual budget, and approved by the Board.
        i. Recommended contributions shall consider expected future required CalPERS Contributions in relation to the District's expected future budget.
        ii. District staff currently recommends a contribution of $10 million each year for the next 10 years beginning in FY19. The amounts are projected to accumulate a Trust balance of between approximately 75% and 100% of one year's required CalPERS contribution after 10 years.
        iii. The District may elect to make additional, non-budgeted contributions to the Trust from year-end surpluses.
    b. Distributions from the Trust shall only be for pension funding, for Trust administration, to make a payment directly to CalPERS or to reimburse the District for such a payment.
    c. Distributions from the Trust shall be recommended by District staff and approved by the Board.
        i. Funds may be used to mitigate the budget impact of increasing CalPERS Contributions, which are currently expected to be highest in about FY33.
        ii. Funds may be used to mitigate the budget impact of CalPERS Contributions in the event of an economic downturn or an unexpected increase in required CalPERS contributions.
        iii. This policy does not require the District to make distributions from the Trust if the District can otherwise meet its required obligations.
    d. At least biennially, the District shall review the Trust's balance in relation to projected CalPERS Contributions and the District's budget and financial forecast.
    e. An investment policy for the Trust will be recommended by staff and approved by the Board.