

EMPLOYEES, RETIREES, AND BENEFICIARIES OF THE CENTRAL COUNTY TRANSPORTATION AUTHORITY (CCTA) PENSION PLAN

The Summary Annual Report of the Central County Transportation Authority (CCTA) Pension Plan for the year ended December 31, 2018 is presented for your information. The material presented in this report is based on financial statements as audited by Maner Costerisan, and the 2018 Actuarial Valuation prepared by Gabriel, Roeder, Smith & Company.

Effective October 1, 2016, the City of Kalamazoo's existing transit operations spun off to become part of the Central County Transportation Authority (CCTA). The asset value of the Pension Trust as of December 31, 2016 was divided into separate amounts for the City Pension Plan and the CCTA Pension Plan. A stand alone, defined benefit pension plan was established for the CCTA. Its purpose is to provide long-term benefit payments to its members. Benefits are guaranteed upon retirement, and are calculated using a formula based on age, years of service, and salary. Membership includes all full time and some part time employees (as allowed by certain bargaining units). Assets of the system must be held and used for the exclusive benefit of members and their beneficiaries.

A Pension Plan is well funded when it has sufficient assets to meet expected future obligations to participants. At December 31, 2018, the Pension Plan held investments of \$29.3 million, a decrease of \$3.6 million from 2017. The investment portfolio reported a net return of -7.36% for fiscal year 2018, net of fees. Despite extreme volatility in global markets in 2018, which ended in a down year for both stocks and bonds, the plan continues to be in an overfunded position. The current ratio of actuarial assets to accrued liabilities is 129.9%. The Plan is in sound financial condition and the fiduciaries remain committed to meet the obligations of the defined benefit plan in a prudent manner.

Respectfully submitted,

Steve Vicenzi
Director, Management Services
City of Kalamazoo

INVESTMENT POLICY

The financial objective of the Pension Plan is to accumulate a pool of assets that will be sufficient to pay the benefits promised by the Plan, at the lowest possible cost, and to do so solely in the interest of the participants and beneficiaries. Within this objective, Plan assets are to be invested to achieve the maximum long term (3-4 market cycles) cumulative annual rate of return possible in relation to risk under the laws and regulations under which the assets can be invested. The Investment Committee has established an investment policy, which provides that the maximum amount permitted under the laws and regulations, will be targeted for investment in common stocks with the balance invested in bonds, short-term securities and real estate.

MONEY MANAGERS AND PHILOSOPHY

The Pension Plan has five investment managers who are responsible for the investment of the Plan's assets in accordance with the Investment Committee's policies. Two of the money managers are common stock managers, one is a bond manager and two are real estate managers. There have been no changes in fund managers this year.

The assets of the Plan are invested in various asset classes (common stocks, bonds, etc.) and in different investment styles within the classes in order to mitigate volatility. Managers are hired for their management style and strategy within these classes of assets. If a manager deviates from the style and strategy for which that firm was hired and the new style and strategy is in conflict with the investment policies, the manager is terminated.

BlackRock

BlackRock, New York, NY, has over \$6.5 trillion in assets under management. Plan assets are invested in Blackrock's Equity Index Fund A, which replicates the S&P 500 Stock Index.

Dimensional Fund Advisors

Dimensional Fund Advisors, Austin, TX, has over \$576 billion in assets under management. DFA manages the Plan's Large Cap Value, Small Cap Value, Micro Cap, International Small Cap Value, and Emerging Markets Value portfolios.

Jennison Associates LLC

Jennison Associates, New York, NY, manages over \$176.4 billion in assets and serves as the Plan's intermediate fixed income manager.

RREEF Real Estate

RREEF Real Estate, Chicago, IL, has over \$63.1 billion in assets under management. Plan assets are invested in RREEF's flagship core fund, RREEF America REIT II.

Vanguard Group, Inc.

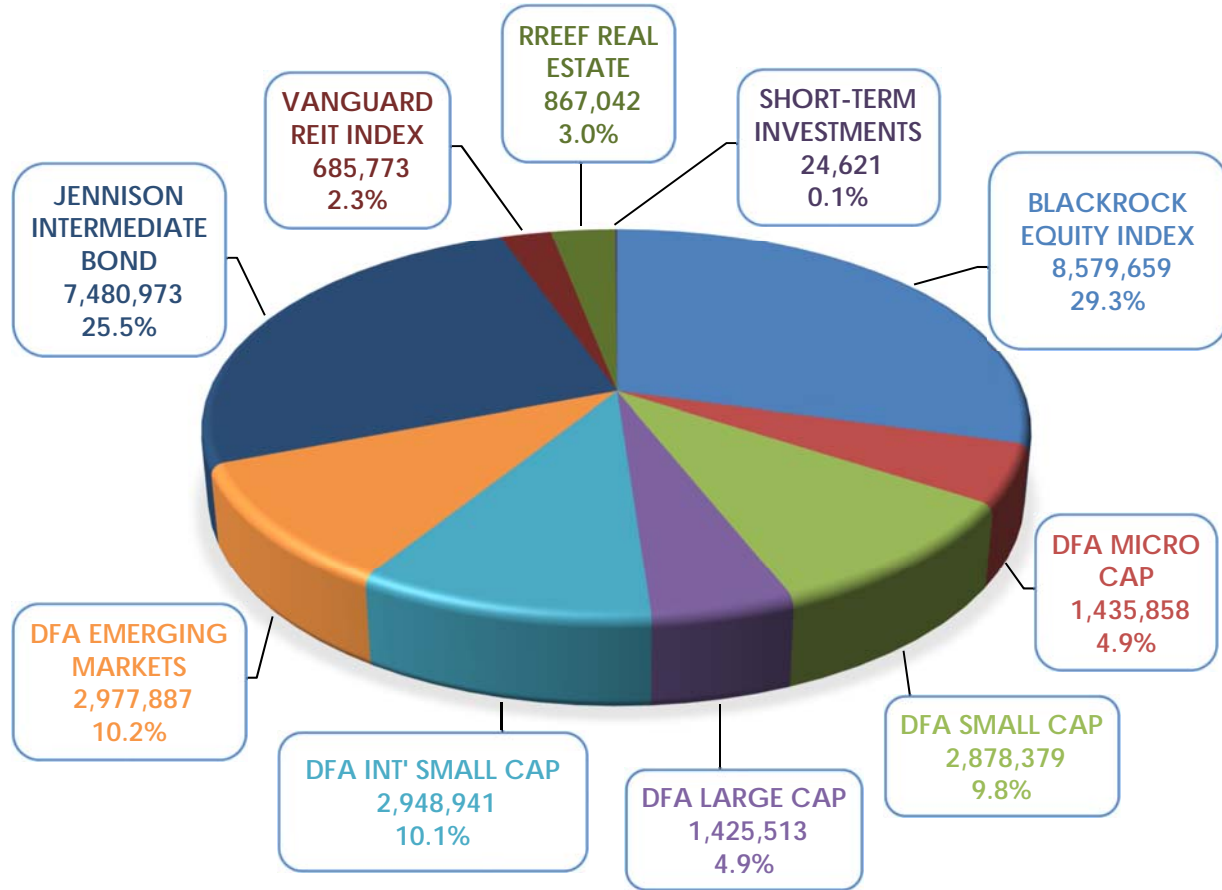
The Vanguard Group, Malvern, PA, has over \$5.3 trillion in assets under management. Plan assets are invested in Vanguard's Real Estate Investment Trust (REIT).

State Street Bank

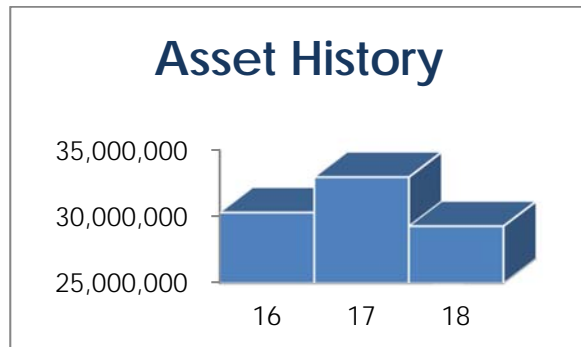
State Street Bank & Trust, Boston, MA, has over \$2.5 trillion in assets under administration and serves as the Plan's Custodian and Trustee. The balance of the Plan's assets is held in cash equivalents in order to meet monthly benefit payments and administrative expenses. State Street Bank safeguards the Plan's assets and serves as the control and monitoring point for the performance and procedures of our investment managers.

INVESTMENT SUMMARY

Asset Allocation



Investments by Asset Class	
Equities	20,246,237
Fixed Income	7,480,973
Real Estate	1,552,815
Short-Term	24,621
Total	29,304,646



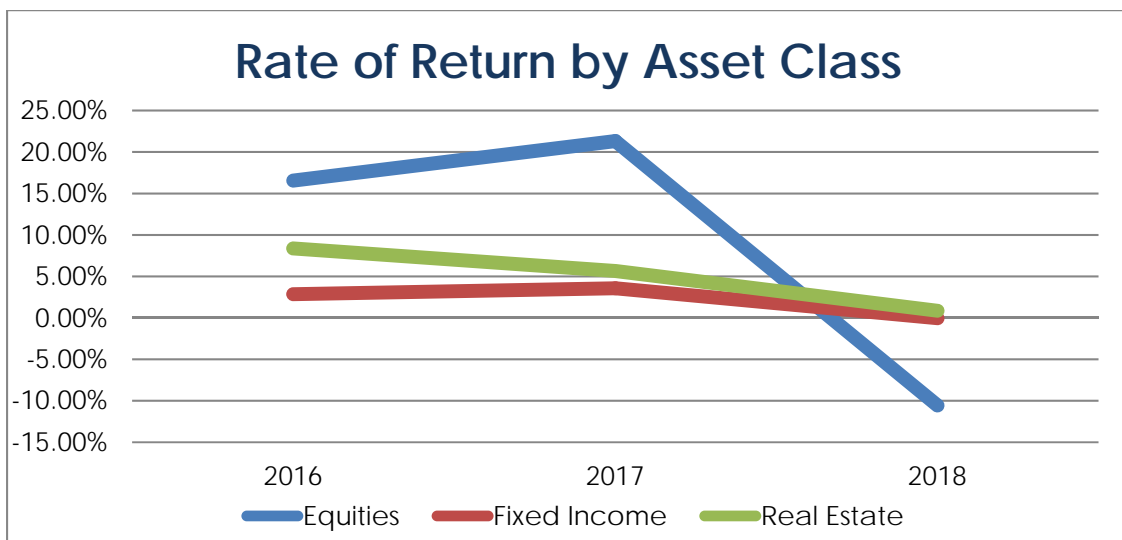
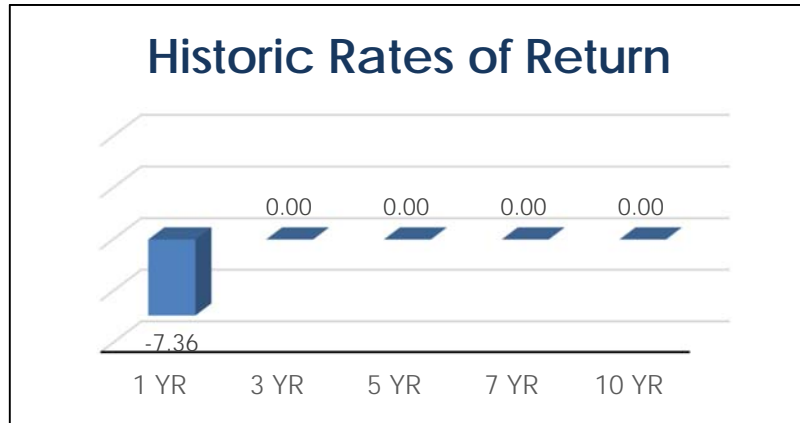
*2016 CCTA spinoff from City of Kalamazoo Pension Plan

INVESTMENT SUMMARY

The investment objective is to achieve a “real” rate of return (nominal rate less inflation) of 5% over time.

Annualized Rate of Return for period ending:

	12/31/2018	12/31/2017
Nominal Rate of Return	-7.36%	15.83%
Inflation	1.91%	2.11%
Real Rate of Return	-9.27%	13.72%



FINANCIAL SUMMARY

The Central County Transportation Authority's Pension Plan total fiduciary net position held in trust for benefits at December 31, 2018 was \$29.3 million, an 11% decrease from \$32.9 million at December 31, 2017. The return received on investments was -7.36%. Unfavorable market conditions resulted in losses across all portfolios except for Real Estate, which showed a modest return.

STATEMENT OF PLAN NET POSITION

	2018	2017
Assets		
Cash and Cash Equivalents	\$ 24,621	\$ 33,213
Receivables	61,067	52,360
Investments	29,218,958	32,893,878
Total Assets	29,304,646	32,979,451
Liabilities		
Accounts Payable	2,626	5,127
Total Liabilities	2,626	5,127
Net Position Restricted for Pension Benefits	\$ 29,302,021	\$ 32,974,324

The Central County Transportation Authority's Pension Plan continues to be managed very cost effectively. All fees and expenses are reviewed and approved in open committee meetings. Total expenses for the Plan in 2018 were \$149 thousand, which is 0.51% of market assets. This low expense ratio is a substantial cost savings to the Plan.

	EXPENSE	% OF MARKET ASSETS
Investment Management fees	\$ 98,615	0.34%
Custodial fees	\$ 14,444	0.05%
Administrative fees	\$ 36,233	0.12%
Total	\$ 149,291	0.51%

FINANCIAL SUMMARY

Revenue sources include employer contributions, employee contributions, and earnings on investments. Plan expenses consist of pension benefits to members and beneficiaries, contribution refunds to those who exit the system, fund management fees, and general administrative costs.

SUMMARY OF CHANGES IN PLAN NET POSITION

	2018	2017
Additions		
Investment Income		
Change in fair value of investments	\$ (3,164,868)	\$ 3,078,635
Interest	213,479	171,080
Dividends	722,017	729,726
Investment expense	(113,058)	(94,529)
Net investment income	(2,342,429)	3,884,913
Contributions		
Plan Members	69,362	65,034
Total additions to net position	(2,273,067)	3,949,946
Deductions		
Benefit Payments	1,330,059	1,263,043
Refunds of Contributions	32,944	5,837
Administrative Expenses	36,233	36,876
Total deductions from net position	1,399,237	1,305,756
Net Change	(3,672,304)	2,644,190
Net position beginning of year	32,974,324	30,330,134
Net position end of year	\$ 29,302,021	\$ 32,974,324

FINANCIAL SUMMARY

BUDGET AND EXPENSES

	2018 BUDGET	2018 ACTUAL
Actuary Fees	\$ 30,050	\$ 27,163
Attorney Fees	1,000	-
Benefit Payments	1,260,000	1,330,059
Consulting Fees	6,750	7,440
Custodial & Retiree Services Fees	16,000	14,444
Disability Physical Exams	250	-
Due Diligence/Conferences	250	1,430
Liability Insurance	2,030	-
Management Fees	80,000	98,615
Miscellaneous Expense	100	200
Refunds of Contributions	10,000	32,944
	<u>\$ 1,406,430</u>	<u>\$ 1,512,295</u>

ACTUARIAL SUMMARY

MEMBERSHIP DATA

	2018	2017
Retirees and Beneficiaries	71	66
Active Members	109	107
Inactive Members	8	8
Total Members	188	181

Average annual retirement allowance	\$ 19,645
Total annual retirement allowances	\$ 1,394,808

ACTUARIAL SUMMARY

Employer contributions, if applicable, are made in accordance with funding levels recommended by Gabriel, Roeder, Smith & Company in the annual Actuarial Valuation Report. Funding level calculations are based on a smoothed (actuarial) value of assets rather than the market value in order to moderate annual fluctuations caused by market conditions. By policy, annual asset gain or loss will be recognized over five years (smoothed), however, actuarial assets may not be less than 80% of the market value of assets.

According to the 2018 valuation, CCTA contributions are not currently needed, as the Plan's assets are in excess of the accrued liability. The current ratio of assets to liabilities is 129.9%.

Employee contributions are made in accordance with union contracts or provisions within the Pension Plan.

ACTUARIAL FUNDING (\$000)

Year Ended	Actuarial Assets	Actuarial Liabilities	Funded Ratio
2016	\$ 30,330	\$ 22,628	134.0%
2017	\$ 31,648	\$ 23,521	134.6%
2018	\$ 32,040	\$ 24,671	129.9%

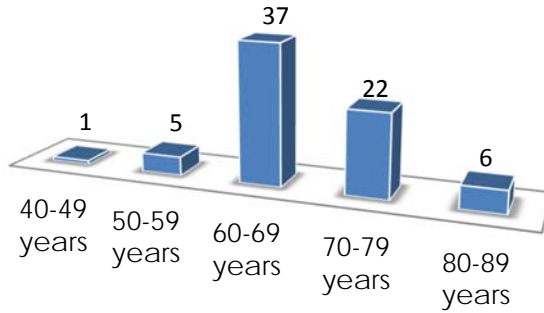
Member Contributions	
Weighted average	1.46%
Employer Contributions	
Computed Normal Cost of benefits expressed a a percentage of valuation payroll	11.47%
Unfunded Actuarial Accrued Liability contribution rate expressed a a percentage of valuation payroll	-4.57% *
Valuation Payroll	\$ 4,995,358

*The overfunded liability is currently supporting pension costs that would otherwise require CCTA contributions.

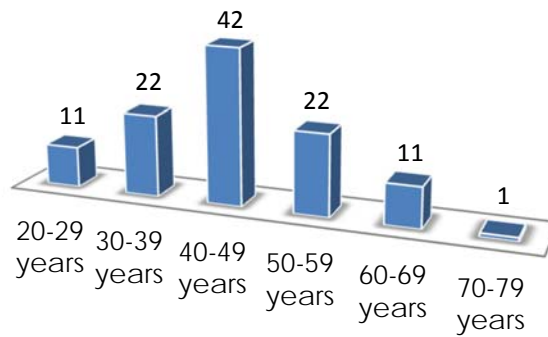
Actuary assumptions include 7.25% Investment rate of return (reduced from 7.5% in 2017) and 3.5% Wage inflation rate. Cost Method is Entry Age, Normal.

ACTUARIAL SUMMARY

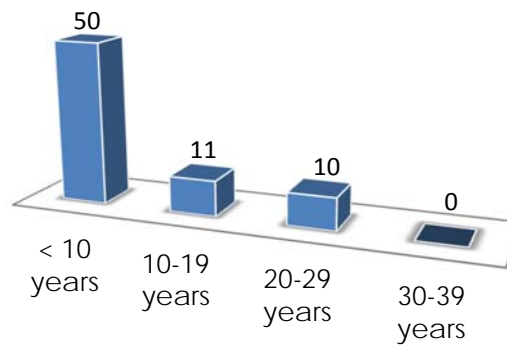
Age Profile of Retirees and Beneficiaries



Age Profile of Active Members



Years Retired



PLAN ADMINISTRATION

BOARD OF TRUSTEES

The CCTA Pension Plan established a five member Board of Trustees to administer the Plan in accordance with its terms and applicable laws and regulations. The Board of Trustees consists of the Executive Director of the CCTA, two members of the CCTA Board of Directors, the Deputy Director for Support Services of the CCTA, and the Chief Financial Officer of the City of Kalamazoo.

Board Members

Sean McBride	CCTA Executive Director
Greg Vlietstra	CCTA Deputy Director for Support Services
Rob Bricker	CCTA Board member
GarryLee McCormick	CCTA Board member
Steve Vicenzi	City of Kalamazoo CFO

INVESTMENT COMMITTEE

The investments of the CCTA Pension Plan are pooled with those of the City of Kalamazoo Employees' Retirement System and the City's Other Post-Employment Benefits (OPEB) Trust. The Investment Committee, appointed by the City of Kalamazoo Mayor with the consent of the City Commission, is charged with the management of the system's assets and has full authority to invest and reinvest such assets subject to the provisions of applicable state and local laws, ordinances, and the investment policy. The Investment Committee is composed of as many as seven members, all have an extensive financial background and none are participants in the system. The members serve three year terms.

<u>Board Members</u>	<u>Term Expires</u>
Robert Salisbury	Chair 3/31/2020
Dr. Randall Eberts	Vice Chair 3/31/2020
Daniel DeMent	3/31/2020
Janice Van Der Kley	3/31/2022
Dean Bergy	3/31/2022
Sandi Doctor	3/31/2022

PLAN ADMINISTRATION

ADVISORS & CONSULTANTS

Actuary	Gabriel, Roeder, Smith & Company
Attorney	Miller, Johnson, Snell & Cummiskey, P.L.C.
Auditor	Maner Costerisan
Custodian	State Street Bank and Trust
Investment Advisor	Merion Capital LLC

FOR FURTHER INFORMATION

If you would like to see the CCTA Pension Plan, Actuarial Valuation, or the Audited Financial Report, these are available during regular business hours in the Management Services Division of City Hall, at CCTA offices, or at the CCTA website, www.kmetro.com.

If you have questions or need information regarding the Pension Plan, or need to make changes to beneficiary or general contact information, please contact:

City of Kalamazoo
241 West South Street
Kalamazoo, MI 49007

Lisa Brown 269-337-8472 pension@kalamazoocity.org
