



Meeting Date: August 3, 2015

Agenda Item No: 8.A.

Prepared By: Heather Ippoliti, Assistant City Manager

REQUEST FOR CITY COUNCIL ACTION

SUBJECT:

Authorize participation in the Public Agencies Post-Employment Benefits Trust Program to be administered by Public Agency Retirement Services (PARS) with U.S. Bank as trustee, appointing the City Manager as the Plan Administrator, authorizing the City Manager to negotiate and execute the documents to implement the program, and creating a Council sub-committee to develop the related investment policy.

STRATEGIC INITIATIVE:

Fiscal Responsibility

RECOMMENDED ACTION(S):

Adopt Resolution authorizing participation in the Public Agencies Post-Employment Benefits Trust Program to be administered by Public Agency Retirement Services (PARS) with U.S. Bank as trustee, appointing the City Manager as the Plan Administrator and authorizing him to negotiate and execute the documents to implement the program, and creating a Council sub-committee to develop the related investment policy.

BACKGROUND:

In 2012, the Government Accounting Standards Board (GASB) issued Statement No. 68, Accounting and Financial Reporting for Pensions. GASB 68 requires that governmental employers that sponsor Defined Benefit plans (i.e., California Public Employees Retirement System (PERS)) must recognize a net pension liability, also known as an unfunded actuarial accrued liability (UAAL) on their balance sheet. This is the difference between the City's total pension liability (actuarial accrued liability) and actual plan assets. GASB 68 will become effective for fiscal years starting after June 15, 2014.

CalPERS has also significantly changed the methodology for calculating the City's Annual Required Contributions (ARC) in regards to amortizing the UAAL.

Until recently, the City's only option for reducing the UAAL was to commit additional funds to CalPERS. Unfortunately, these additional funds would be subject to the same market volatility risk as the CalPERS investment policy target of 7.5%, and are not accessible to the City for other CalPERS pension expenses.

DISCUSSION/ANALYSIS:

A recent private letter ruling received from the IRS established that public agencies or municipalities could create a separate trust to "pre-fund" its PERS unfunded liability. This would provide the City with an alternative to sending funds to PERS and will provide greater City local control over assets and portfolio management.

The City engaged the services of John Bartel, President of the actuarial consulting firm, Bartel and

Associates, LLC to evaluate the PERS actuarial issues facing the City. Mr. Bartel presented his firm's findings to the City Council on April 21 and his recommendations on June 1, 2015 (report attached as Exhibit A).

Expected benefits offered by a separate retirement funding trust include:

- Pension volatility mitigation-contributions from the trust can be transferred to PERS at the City's discretion to offset fluctuations in the required annual contributions impacted by PERS investment returns. As shown on page 2 of Exhibit A, PERS investment returns have fluctuated dramatically over the last 20 years. Last week PERS stakeholders were notified via email that the preliminary one year investment performance for FY 14-15 showed a return of only 2.4 percent. Although PERS has achieved returns over the past three and five years of 10.9 and 10.7 percent, respectively, cities throughout California were negatively impacted during the period when their 10 year returns averaged only 3.4 percent. To mitigate this potential going forward, the proposed trust and funding plan have been structured to level contribution rates to the following:
 - Miscellaneous-28% through FY 23-24
 - Safety-44%
- Trust assets can be accessed anytime to fund the City's pension obligations and defray reasonable expenses associated therewith.
- Investment flexibility with Section 115 Trust compared to restrictions on general fund investments (Govt. Code 53216.1)
- Investment security with Section 115 Trust compared to CalPERS investment management, risk appetite and portfolio allocation
- Investments can be tailored to the City's unique demographics
- Oversight and local control of fund management selection and monitoring of performance

An investment policy for trust assets also needs to be developed. Staff recommends that a Council subcommittee be formed to work with PARS to create the policy, which will then be brought forward to the full Council for consideration and adoption at a future meeting.

ENVIRONMENTAL ANALYSIS:

Pursuant to Title 14, the California Code of Regulations, Section 15302(C) of the California Environmental Quality Act (CEQA) guidelines, approval of this resolution is an administrative activity of the City that will not result in direct or indirect physical changes to the environment.

FISCAL IMPACT:

Cash Impact:

Establishing the Pension Trust Fund has no direct cash impact. Funding the Trust Fund will have a cash impact as funds must be withdrawn from existing accounts and transferred to the irrevocable trust account. As part of the FY 15-16 Budget Adoption process, Council authorized the following contributions to the trust:

General Fund	\$1,500,000.	Miscellaneous Employees
General Fund	1,000,000.	Safety Employees
Streets Fund	93,017.	Miscellaneous Employees
Water Fund	279,040.	Miscellaneous Employees
Wastewater Fund	336,044.	Miscellaneous Employees
Drainage Fund	73,045.	Miscellaneous Employees
Electric Fund	479,929.	Miscellaneous Employees
Community Services Fund	238,925.	Miscellaneous Employees
Total	\$4,000,000	

Financial Statement Impact:

The actual financial statement impact of the amount of GASB 68 UAAL is not known at the present time, as CalPERS is still working on current valuations

ALTERNATIVES:

Council may choose to not adopt the resolution and to not authorize participation in the program.

ATTACHMENTS:

- Description
- ☐ Resolution
- ☐ Exhibit A - Bartle Associates Report 6_1_15

CITY OF HEALDSBURG

RESOLUTION NO. _____

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF HEALDSBURG AUTHORIZING PARTICIPATION IN THE PUBLIC AGENCIES POST-EMPLOYMENT BENEFITS TRUST PROGRAM TO BE ADMINISTERED BY PUBLIC AGENCY RETIREMENT SERVICES (PARS) WITH U.S. BANK AS TRUSTEE, APPOINTING THE CITY MANAGER AS THE PLAN ADMINISTRATOR, AUTHORIZING THE CITY MANAGER TO NEGOTIATE AND EXECUTE THE DOCUMENTS REQUIRED TO IMPLEMENT THE PROGRAM, AND CREATING A COUNCIL SUBCOMMITTEE TO DEVELOP A RELATED INVESTMENT POLICY

WHEREAS, the City has engaged the services of John Bartel, President of the actuarial consulting firm, Bartel and Associates, LLC to evaluate the CalPERS actuarial issues facing the City. Mr. Bartel presented his firm's findings to the City Council on April 21 and his recommendations on June 1, 2015; and

WHEREAS, PARS has made available the PARS Public Agencies Post-Employment Benefits Trust (the "Program") for the purpose of pre-funding pension obligations and/or OPEB obligations; and

WHEREAS, expected benefits offered by a separate retirement funding trust include:

- Pension volatility mitigation-contributions from the trust can be transferred to CalPERS at the City's discretion to offset fluctuations in the required annual contributions. Trust assets can be accessed anytime to fund the City's pension obligations and defray reasonable expenses associated therewith.
- Investment flexibility with Section 115 Trust compared to restrictions on general fund investments (Govt. Code 53216.1)
- Investment security with Section 115 Trust compared to CalPERS investment management, risk appetite and portfolio allocation
- Investments can be tailored to the City's unique demographics
- Oversight and local control of fund management selection and monitoring of performance; and

WHEREAS, it is determined to be in the best interest of the City of Healdsburg (the "City") to set aside funds for pre-funding its CalPERS pension obligation that will be held in trust for the exclusive purpose of making future contributions of the City's required pension contributions and any employer contributions in excess of such required contributions at the discretion of the City; and

WHEREAS, the City is eligible to participate in the Program, a tax-exempt trust performing an essential governmental function within the meaning of Section 115 of the Internal Revenue Code, as amended, and the Regulations issued there under, and is a tax-exempt trust under the relevant statutory provisions of the State of California; and

WHEREAS, the City's adoption and operation of the Program has no effect on any current or former employee's entitlement to post-employment benefits; and

WHEREAS, the terms and conditions of post-employment benefit entitlement, if any, are governed by contracts separate from and independent of the Program; and

WHEREAS, the City's funding of the Program does not, and is not intended to, create any new vested right to any benefit nor strengthen any existing vested right; and

WHEREAS, the City reserves the right to make contributions to the Program.

NOW, THEREFORE, BE IT RESOLVED that the City Council of the City of Healdsburg hereby:

1. Adopts the PARS Public Agencies Post-Employment Benefits Trust, effective July 21, 2015; and
2. Appoints the City Manager, or his/her successor or his/her designee as the City's Plan Administrator for the Program; and
3. Authorizes the City's Plan Administrator to execute legal and administrative documents on behalf of the City and to take whatever additional actions are necessary to maintain the City's participation in the Program and to maintain compliance of any relevant regulation issued or as may be issued; therefore, authorizing him/her to take whatever additional actions are required to administer the City's Program; and
4. Establishes a City Council Subcommittee to create an investment policy for the trust fund. The policy will be brought forward for Council adoption at a subsequent meeting.

PASSED, APPROVED AND ADOPTED, this 20th day of July 2015, by the following vote:

AYES: Councilmembers:

NOES: Councilmembers:

ABSENT: Councilmembers:

ABSTAINING: Councilmembers:

SO ORDERED:

ATTEST:

Shaun F. McCaffrey, Mayor

Maria Curiel, City Clerk