



City of Rialto

Legislation Details (With Text)

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On agenda: 4/27/2021 **Final action:** 4/27/2021
Title: Request City Council to 1) Adopt Resolution No. 7727 Authorizing the Establishment of a Section 115 Trust to be Used as a Rate Stabilization Fund for the City's Pension Obligations, and 2) Approve as to Form an Agreement for Administrative Services with the Public Agencies Retirement Services (PARS) for Section 115 Trust Administration and Investment Management Services.
(ACTION)

Sponsors:

Indexes:

Code sections:

Attachments: 1. Section 115 Pension Trust Resolution.pdf, 2. Administrative Services Agreement (002).pdf, 3. Administrative Services Agreement (002).pdf, 4. IRS Letter.pdf, 5. PARS_Disclosure Form.pdf

Date	Ver.	Action By	Action	Result
4/27/2021	1	City Council		

For City Council Meeting [April 27, 2021]

TO: Honorable Mayor and City Council

APPROVAL: Sean Grayson, Acting City Manager

FROM: Bob Chandler, Interim Finance Director

Request City Council to 1) Adopt **Resolution No. 7727** Authorizing the Establishment of a Section 115 Trust to be Used as a Rate Stabilization Fund for the City's Pension Obligations, and 2) Approve as to Form an Agreement for Administrative Services with the Public Agencies Retirement Services (PARS) for Section 115 Trust Administration and Investment Management Services.
(ACTION)

BACKGROUND

The City Council previously adopted a retirement plan with CalPERS pursuant to the Public Employees' Retirement Law, commencing with Section 20000 of the Government Code of the State of California, as amended (the "Retirement Law"). The Retirement Law obligates the City to (1) make annual contributions to the System to fund pension benefits for its employees, (2) amortize the unfunded accrued actuarial liability with respect to such pension benefits, and (3) appropriate funds for the purposes described in (1) and (2). As such, the City is obligated to make certain payments to the CalPERS System with respect to its Pension Obligation under the Retirement Law and its CalPERS Contract.

The City's Unfunded Accrued Liability (the UAL) under its CalPERS retirement plan has seen a 42% increase over the last 7 years; from \$94.2 million in 2014, to \$133.6 million in 2021. And annual payments to amortize the UAL have grown to \$9.9 million in 2020, with future year payments

projected to grow to \$15.2 million by 2030. For several years, the City Council has been working on finding appropriate solutions to address the UAL. There were recommendations from the Budget Advisory Committee in 2018/2019, and subsequently from the Pension Ad Hoc Committee in 2019. And in 2021, the City retained the services of NHA Advisors / Bayshore Consulting Group to serve as the City's Municipal Advisors for research and education on the subject of the City's UAL. And in the last 3 months alone, the Council has conducted public workshops, the City's consultants have engaged in questions and answers with the Council and the public, the Council has received recommendations and feedback from the community, and UAL Working Group discussions have taken place in meetings of the Economic Development Committee.

ANALYSIS/DISCUSSION

Although the development of the City's solution strategy for the UAL is ongoing, direction was received from the City Council that consideration of the establishment of a Section 115 Trust for the City's Pension obligations be brought for consideration as a component of the City's overall UAL approach. As proposed, the City's Section 115 Trust will be used as a rate stabilization fund for the City's future pension liabilities. A Section 115 Trust is a vehicle for segregating City funds from its general assets for the specific purpose of funding essential governmental functions, in the City's case, future pension liabilities. As such, funds invested in the Section 115 Trust will be irrevocably committed for the purpose of solely funding pension costs such as reimbursing the City for annual CalPERS pension expenses, making additional one-time payments directly to CalPERS, and for other pension related expenses. Additionally, since Section 115 Trust Funds are irrevocable in nature and dedicated to satisfy pension obligations, the funds can also be invested in the same manner as funds in a typical pension fund rather than the City's more restrictive and conservative general fund, thus potentially resulting in higher investment returns. Among the expected benefits of the proposed Trust are:

- Increased investment flexibility and diversification;
- City's ability to maintain complete control of its assets;
- Assets are available to the City when needed for pension related liabilities;
- Potential enhanced rating agency and investor considerations; and
- The Trust will serve as a rainy-day fund for pension expenses.

Staff is recommending that the City establish its pension Section 115 Trust through an Administrative Services Agreement with PARS. With over 36 years of experience, PARS administers Section 115 Trust services for over 400 public agencies, including 230 for pension prefunding in California. PARS offers five investment strategies and asset management fees are based upon the level of assets under management. PARS partners with US Bank (trustee) and HighMark Capital Management (investment management services) for total plan management. PARS Section 115 Trust portfolios have averaged 4.75% - 9.15% returns over the last 10 years depending on the applied investment strategy.

In addition, PARS has been administering the City's Post-Retirement Health Care Plan/Trust since 2009, and as proposed, the City's existing Post-Retirement Health Care Plan/Trust and the proposed Pension Rate Stabilization Program (PRSP) Trust would be combined into a single trust (the Post-Employment Benefits Trust) with assets in both trusts accounted for separately in accordance with GASB requirements. Therefore, combining the two accounts into a combined trust results in a lower

fee structure than would be the case with two separate trusts. PARS trust services include:

- Plan Administration, Recordkeeping and Reporting
- Compliance Monitoring
- Plan Consulting and Funding Analysis
- Investment Policy Development and Asset Allocation Recommendations
- Asset Management
- Custodial Services

As authorized by Section 2.48.210 of the City's Municipal Code, the recommended approval of PARS as the proposed Trust's Administration and Investment Management Services provider is based on a "piggyback" of the City of Riverside, California's, contract with PARS, awarded through an appropriate competitive process. The City of Riverside competitively bid and awarded a pension trust contract with PARS in November 2019.

As proposed, there is not now a recommendation to deposit funds into the proposed Trust. Rather, it is only being proposed that the Trust be established at this time. A comprehensive pension policy will be developed as part of the FY 2021-22 Annual Budget and brought to the Council for its consideration. Included as a component of the pension policy will be guidelines for funding the Trust now being established. Thus, with the Fund being established now, if/when the Council determines in the future to deposit funds into the Trust, either in compliance with the provisions of an adopted pension policy, or through any other applicable Council direction, it will be able to do so.

ENVIRONMENTAL IMPACT

The request is not a Project as defined by Section 15378 of the California Environmental Quality Act (CEQA). A "Project" means the whole of an action, which has a potential for resulting in either a direct physical change in the environment, or a reasonably foreseeable indirect physical change in the environment. Pursuant to Section 15378 (b)(5), a project does not include organizational or administrative activities of governments that will not result in direct or indirect physical changes in the environment.

GENERAL PLAN CONSISTENCY

The request is consistent with Guiding Principle 3A of the Rialto General Plan:

Our City government will lead by example, and will operate in an open, transparent, and responsive manner that meets the needs of the citizens and is a good place to do business

LEGAL REVIEW

The City Attorney has reviewed and supports this staff report.

FINANCIAL IMPACT

Operating Budget Impact

There is no operating budget impact associated with the establishment of a Section 115 Trust. If/when the Trust is funded in the future, the fees for service will be paid from plan assets and will include Trust administration/consulting fees and discretionary trustee/investment management fees. The fee amounts are based on a sliding scale. By way of an example, when the combined Trust is funded at a total of \$40 million, the all-in fees charged will be .375% per annum. These fees will be offset by earnings which have averaged 8.19% annually over the last 10 years for the City.

Capital Improvement Budget Impact

Approving the proposed actions will have no impact on the Capital Improvement Budget.

Licensing

Prior to the execution of the agreement, the vendors shall submit a business license application and pay a Business License Tax as well as Administration and State Fees.

RECOMMENDATION

Staff recommends that the City Council:

- 1) Adopt a resolution authorizing the establishment of a Section 115 Trust to be used as a rate stabilization fund for the City's pension obligations; and
- 2) Approve as to form an agreement for Administrative Services with the Public Agencies Retirement Services (PARS) for Section 115 Trust Administration and investment management services.