



Legislation Details (With Text)

File #: 18-618 **Version:** 1 **Name:**

Type: Consent Item **Status:** Passed

File created: 11/26/2018 **In control:** City Council/Public Finance and Economic Development Authority/Parking Authority

On agenda: 1/7/2019 **Final action:** 1/7/2019

Title: SUBJECT: Adoption of Resolution Authorizing the Adoption of the Section 115 Post Employment Benefit Trust Administered by Public Agency Retirement Services (PARS) to Fund the City’s Pension Benefits and Approval of the Associated Agreement with Phase II Systems

REPORT IN BRIEF

Considers adopting a Resolution authorizing the adoption and operation of the PARS Post-Employment Benefits Trust Program to be used to pre-fund pension obligations. Also requests approval of a Professional Services Agreement Phase II Systems, doing business as Public Agency Retirement Services.

RECOMMENDATION

City Council - Adopt a motion:

- A. Adopting Resolution 2019-04, A Resolution of the City Council of the City of Merced, California, Approving the Adoption of the Public Agencies Post-Employment Benefits Trust Administered by Public Agency Retirement Services (PARS); and,
- B. Approving the agreement for professional services with Phase II Systems, doing business as “Public Agency Retirement Services” and “PARS” for administrative services as Trust Administrator for pre-funding pension obligations; and,
- C. Authorizing the City Manager or the Assistant City Manager to execute the necessary documents.

Sponsors:

Indexes:

Code sections:

Attachments: 1. Resolution, 2. Professional Services Agreement

Date	Ver.	Action By	Action	Result
1/7/2019	1	City Council/Public Finance and Economic Development Authority/Parking Authority	approved	Pass

Report Prepared by: Venus Rodriguez, Finance Officer

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RECOMMENDATION

City Council - Adopt a motion:

A. Adopting **Resolution 2019-04**, A Resolution of the City Council of the City of Merced, California, Approving the Adoption of the Public Agencies Post-Employment Benefits Trust Administered by Public Agency Retirement Services (PARS); and,

B. Approving the agreement for professional services with Phase II Systems, doing business as "Public Agency Retirement Services" and "PARS" for administrative services as Trust Administrator for pre-funding pension obligations; and,

C. Authorizing the City Manager or the Assistant City Manager to execute the necessary documents.

ALTERNATIVES

1. Adopt as recommended by staff; or
2. Refer back to staff with specific direction, or
3. Deny

AUTHORITY

City of Merced Charter Article VI Section 604-Finance Officer-Power and duties

CITY COUNCIL PRIORITIES

As provided for in the 2018-19 Adopted Budget to mitigate the increasing pension obligation and unfunded accrued liability.

DISCUSSION

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., CalPERS) must recognize a net pension liability or unfunded accrued liability (UAL) on their balance sheet. This is the difference between the City's total pension liability, or actuarial accrued liability (AAL) and actual plan assets. GASB 68 became effective for fiscal years starting after June 15, 2014.

In addition, CalPERS has made changes that significantly increased the City's UAL. On December 21, 2016, the CalPERS Board of Administration lowered the discount rate from 7.50% to 7.00%. CalPERS implemented a five-year ramp-up that began this fiscal year to take into account actuarial gains and losses, as well as changes in actuarial assumptions and methods. The first three of the five years will phase in the new discount rate. In December 2017, CalPERS also decided to reduce the amortization period from 30 years to 20 years, with the impact beginning in fiscal year 2020-21.

Based on the CalPERS Annual Valuation reported dated June 30, 2017, the City of Merced's UAL is \$81.4 million. Staff estimate that the City of Merced's overall annual contribution amount will increase from \$6.4 million in fiscal year 2016-17 to \$13.5 million in fiscal year 2023-24, experiencing a 111% increase over the next six years. The general fund will increase from \$3.6 million in fiscal year 2016-17 to \$7.1 million in fiscal year 2023-24, with an increase of 99%.

With the understanding that these impacts pose a significant budgetary increase to the City, staff began researching different methods and strategies to present to the Council for consideration in mitigating the financial impact. One option staff considered was to commit additional funds to CalPERS, in excess of its existing annual required contributions, to pay down the UAL. In doing this, CalPERS would continue to manage all assets without an assurance that additional contributions would reduce the City's UAL.

Another option staff considered was to create a separate trust, or Trust 115, as approved by the IRS in a private letter ruling to "pre-fund" the City's UAL. This option provides the City with an alternative to making additional contributions to CalPERS. It also allows for greater local control over assets, investment by a professional fund management team selected and monitored by the City, and Council discretion over the use of the funds towards increased contribution amounts in future budget years.

On October 16, 2017, staff presented the City Council with these options to consider. The Council provided direction to staff to proceed in evaluating the potential of a Trust 115 for pension liability and if determined to provide a positive benefit to proceed in issuing a request for proposal (RFP). Staff determined that a Trust 115 would be the City's best solution and proceeded with issuing a RFP.

On July 16, 2018, two proposals were received, one from Phase II Systems (PARS) and the other from PFM. The proposals were analyzed according to evaluation criteria, which included mandatory elements, technical qualifications, and cost. The technical qualifications included expertise, experience, and management approach. After review and evaluation by a selection committee, PARS was selected.

To date, 176 public agencies have adopted the Pension Rate Stabilization Program (PRSP) through PARS including the City of Stockton, City of Atwater, City of Pleasanton, and City of Emeryville

Expected benefits offered by the PARS PRSP include:

- Contributions placed in an exclusive benefit trust could address the City's Net Pension Liability
- Investment flexibility with Section 115 Trust compared to restrictions on general fund investments (Govt. Code 53216)
- Increased risk diversification of plan assets through different asset management
- Oversight and control of fund management selection, monitoring of performance and ability to replace fund management based on performance criteria
- Increased flexibility on use of trust assets (i.e., trust assets can be accessed at any time as long as the assets are used to fund the City's pension obligations and defray reasonable expenses associated therewith)
- Lower investment management and administrative expenses compared to CalPERS
- Potential for positive rating agency and investor consideration.

In an effort to help public agencies address and manage their GASB 68 liability, PARS has developed the PARS Post-Employment Benefits Trust Program. PARS has assembled leading professionals to provide the City with the necessary services required under one program to pre-fund pension liabilities through an IRS reviewed program. The program has been established as a multiple

employer trust so that public agencies regardless of size can join the program to receive the necessary economies of scale to keep administrative fees low and avoid any setup costs. The trust permits the City, under federal and state law, to invest in a more diversified array of investments to maximize investment returns long term.

PARS has partnered with US Bank to serve as trustee and its sub-adviser HighMark Capital Management, Inc., to provide investment management services for the program.

The cost of the services per the proposed fee schedule will be determined by the value of the assets under management. There are no fees for this initial startup process. Fees will begin once funds are put into the trust.

If approved by the City Council, staff will come forward on a future agenda to request that the Council provide approval and/or direction for the following:

- Potential revisions to the Investment Policy
- Asset allocation recommendations
- Funding of the trust

IMPACT ON CITY RESOURCES

Staff recommendations for funding the Trust 115 will come back to City Council for direction at a later date. There are no fees associated with the trust until it is funded. The cost of the services will be determined by the value of the assets under management.

ATTACHMENTS

1. Resolution 2019-04
2. Professional Services Agreement