



Midpeninsula Regional
Open Space District

R-18-21
Meeting 18-09
February 28, 2018

AGENDA ITEM 4

AGENDA ITEM

Establishment of a Post-Employment Benefits Section 115 Trust to pre-fund a portion of future pension obligations

ACTING GENERAL MANAGER'S RECOMMENDATIONS

A handwritten signature in black ink, appearing to be "J. Lee".

Adopt a Resolution authorizing the adoption of the Public Agencies Post-Employment Benefits (Section 115) Trust as administered by Public Agency Retirement Services to provide an alternative investment strategy for pre-funding pension obligations, and authorizing the General Manager or designee to execute all documents necessary to establish the trust.

SUMMARY

The Midpeninsula Regional Open Space District (District) provides a defined-benefit pension to its retirees through California Public Employees Retirement System (CalPERS). Funding of CalPERS pensions relies on three sources: employee contributions, employer contributions, and investment returns (which vary according to financial market performance). CalPERS has significantly changed the methodology for calculating the Annual Required Contributions (ARC) in regards to amortizing the Unfunded Actuarial Accrued Liability (UAAL). Until recently, the only option for reducing the UAAL was to commit additional funds to CalPERS, subject to the same CalPERS investment returns. Furthermore, funds deposited with CalPERS are not accessible to the District for other pension expenses.

To maintain local control over assets and diversify investment strategies, the General Manager recommends creating a Section 115 Trust as an additional investment vehicle to pre-fund unfunded retirement obligations, rather than solely through CalPERS. Should the Board approve the establishment of a Section 115 Trust, the General Manager recommends selecting Public Agency Retirement Services (PARS). PARS is the leader in the field with an excellent public agency reputation. In addition, PARS offers several risk tolerance profiles ranging from capital appreciation (higher risk/higher returns) to conservative (lower returns/lower risk) and no minimum amount for contributions, thereby providing the District with maximum flexibility.

DISCUSSION

The District has its pension plan (defined benefit plan) with CalPERS, as is the case for the vast majority of public entities in California. All District eligible employees participate in the Miscellaneous Pool. Retirement benefits are funded through employer and employee contributions, as well as investment earnings. The level of funding and contributions are based on a number of actuarial assumptions, including expected future investment returns or discount

rate, life expectancies, and inflation. As shown below, recent CalPERS investment returns have been volatile over the past three years and have lagged the overall market:

• FY 2014/15	2.40%	S&P 500	7.817%
• FY 2015/16	0.60%	S&P 500	- 0.734%
• FY 2016/17	11.20%	S&P 500	16.800%

Discount Rate

One of the most important factors in the actuarial calculations is the discount rate used to assume future investment earnings. Historically, CalPERS has used a 7.5% rate, yet over the past 20 years, the actual average rate of return has been only 6.9%. In the wake of the negative returns incurred during the Great Recession and increased life expectancies, the CalPERS Board has approved a plan to seek more stable returns through reduced volatility (risk) and is therefore reducing the discount rate from the current 7.5% over the next three years as follows:

• FY 2017/18	7.375%
• FY 2018/19	7.25%
• FY 2019/20	7.00%

Lowering of the discount rate, combined with a transition to a lower risk profile is expected to result in lower returns and consequentially an increase in the unfunded liabilities.

Section 115 Trust

The Section 115 Trust Program is a relatively new investment vehicle that allows local governments and agencies to pre-fund their respective unfunded liabilities for both Pension and Other Post Retirement Benefits (OPEB) costs. This provides an alternative to sending additional funds to CalPERS to avoid its inherent market volatility risks. The District already took a similar action several years ago with respect to the unfunded portion of future retiree medical benefits by establishing an irrevocable trust with California Employers' Retiree Benefit Trust (CERBT) offered through CalPERS.

Establishment of a Section 115 Trust to pre-fund unfunded pension liabilities provides multiple benefits to the District, including:

- Local Control of Assets – the District would have a choice of several risk profiles and can access the account at any time to pay its pension obligations.
- Rate Stabilization – funds can be transferred to CalPERS at the District's discretion, which may stabilize future employer contributions to CalPERS.
- Investment Risk Management – the District will be able to choose from several risk profiles as a function of its risk tolerance.

PARS

The first entity to receive a private letter ruling guaranteeing the tax-exempt status of investments from the Internal Revenue Service (IRS) was the Public Agency Retirement Services (PARS). It is currently the most widely adopted program among public agencies (see Attachment 2 for the PARS client list per February 2018).

PARS provides the services required through an IRS reviewed program. The program is 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 setup costs. PARS partnered with US Bank to serve as trustee and its sub-adviser HighMark Capital Management, Inc., to provide investment management services for the program.

PARS's Section 115 Trust Program has five investment portfolios: Capital Appreciation, Balanced, Moderate, Moderately Conservative, and Conservative. Each portfolio has different risk profiles with different amounts invested in equities and other investments. The investment portfolios have five risk profiles from "Conservative" to "Capital Appreciation". Each of the risk profiles have a policy asset allocation as shown in the table below. It is important to note that as the amount of equities increases, risk and volatility increases, while as the amount of equities decreases, risk and volatility decreases.

Portfolio Allocation	Conservative	Moderately Conservative	Moderate	Balanced	Capital Appreciation
Equity	15%	30%	50%	60%	75%
Fixed Income	80%	65%	45%	35%	20%
Cash	5%	5%	5%	5%	5%
1 yr return	6.73%	9.56%	13.19%	15.46%	16.72%
5 yr return (annualized)	3.39%	5.26%	7.42%	8.54%	10.08%
10 yr return (annualized)	3.75%	4.93%	5.45%	5.74%	10.90%*

* Since inception (108 months)

Returns are gross of investment fees, which would be 0.83% on a \$1 million deposit

Investment fees are tiered and would decrease as funds on deposit increase

The other entity offering Section 115 Trusts is Public Financial Management Group (PFM). PARS is the preferred vendor given their singular focus on pension trusts, a longer track record, lower fees, and a very wide adoption by other municipal agencies. PARS is the leader in the field with over 80 pre-funding pension programs and enjoys an excellent reputation with public agencies. In addition, PARS has the advantage of offering several risk tolerance profiles ranging from capital appreciation (higher risk/higher returns) to conservative (lower returns/lower risk), and no minimum amount for contributions, thereby providing maximum flexibility.

FISCAL IMPACT

Establishing the Section 115 Trust has no direct fiscal impact at this time. A fiscal impact will occur only when the Board approves the transfer of funds to the Trust. Over the past two years, the Board has agreed to transfer budgetary salary savings to CalPERS as pre-funding of its unfunded pension liabilities. Future contributions to the Trust may be funded as part of the District's annual budget or through annual savings.

The District Controller has been involved in the review for the 115 Trust from the start and is in favor of the District establishing this trust with PARS.

BOARD COMMITTEE REVIEW

The Chief Financial Officer presented this item to the Action Plan and Budget Committee (ABC) on December 5, 2017. The ABC unanimously recommended approval of the proposal by the Board of Directors.

PUBLIC NOTICE

Public notice was provided as required by the Brown Act. No additional notice is required.

CEQA COMPLIANCE

This proposed action is not a project under the California Environmental Quality Act and no environmental review is required.

NEXT STEPS

Upon approval by the Board, the General Manager, or her designee will sign an Administrative Services Agreement with PARS to establish the Section 115 Trust. Funding for the Trust will be included in the Q3 budget adjustment analysis.

Attachments:

1. Resolution Authorizing the Adoption of the Public Agencies Post-Employment Benefits Trust Administered by Public Agency Retirement Services (PARS), and to Authorize the General Manager or Designee to Execute any and all Other Documents Necessary to Establish Such Trust

Responsible Department Head:
Stefan Jaskulak, Chief Financial Officer

Prepared by:
Andrew Taylor, Finance Manager

RESOLUTION 18-__

RESOLUTION OF THE BOARD OF DIRECTORS OF MIDPENINSULA REGIONAL OPEN SPACE DISTRICT AUTHORIZING THE ADOPTION OF THE PUBLIC AGENCIES POST-EMPLOYMENT BENEFITS TRUST ADMINISTERED BY PUBLIC AGENCY RETIREMENT SERVICES (PARS), AND TO AUTHORIZE THE GENERAL MANAGER OR DESIGNEE TO EXECUTE ANY AND ALL OTHER DOCUMENTS NECESSARY TO ESTABLISH SUCH TRUST

WHEREAS, Public Agency Retirement Services (PARS) has made available the PARS Public Agencies Post-Employment Benefits Trust (the “Program”) for the purpose of pre-funding pension obligations and/or Other Post Employment Benefit (“OPEB”) obligations; and

WHEREAS, the Midpeninsula Regional Open Space District (“District”) is eligible to participate in the Program, which is 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 thereunder, and is a tax-exempt trust under the relevant statutory provisions of the State of California; and

WHEREAS, the District’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 District’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 District reserves the right to make contributions, if any, to the Program.

The Board of Directors of Midpeninsula Regional Open Space District does hereby resolve as follows:

NOW THEREFORE, BE IT RESOLVED THAT:

1. The Board of Directors hereby adopts the PARS Public Agencies Post-Employment Benefits Trust, effective as of the date of this Resolution.
2. The Board of Directors hereby appoints the District’s General Manager or his/her designee as the District’s Plan Administrator for the Program.
3. The District’s Plan Administrator is hereby authorized to do the following: 1) execute the PARS legal and administrative documents on behalf of the District, 2) take any additional actions necessary to administer and maintain the District’s participation in the Program, and 3) take any actions necessary to maintain compliance with any relevant regulation issued related to the Program.

* * * * *

PASSED AND ADOPTED by the Board of Directors of the Midpeninsula Regional Open Space District on _____, 2018, at a regular meeting thereof, by the following vote:

- AYES:**
- NOES:**
- ABSTAIN:**
- ABSENT:**

ATTEST:

APPROVED:

Secretary
Board of Directors

President
Board of Directors

APPROVED AS TO FORM:

General Counsel

I, the District Clerk of the Midpeninsula Regional Open Space District, hereby certify that the above is a true and correct copy of a resolution duly adopted by the Board of Directors of the Midpeninsula Regional Open Space District by the above vote at a meeting thereof duly held and called on the above day.

District Clerk

OPEB/PENSION CLIENT LIST

UPDATED: FEBRUARY 2018

CITIES & TOWNS

Alameda

Alhambra
Atherton
Bakersfield

Bell Gardens

Beverly Hills

Brea*

Brisbane

Burlingame*

Camarillo

Capitola*

Chino Hills

Colma

Commerce

Coronado

Covina

Crescent City

Cupertino

Cypress*

Daly City

Duarte

Dublin

El Centro*

El Segundo*

Elk Grove

Fountain Valley

Fullerton

Galt

Glendale

Half Moon Bay

Healdsburg*

Hercules

Hermosa Beach

Huntington Beach

La Mesa*

La Verne

Lake Forest

Lakewood

Livermore

Lodi

Los Altos Hills*

Los Gatos

Mammoth Lakes

Manhattan Beach

Morgan Hill

Napa

National City

Norwalk

Novato

Oakley

Oroville

Palo Alto

Pasadena

Pico Rivera

Port Hueneme

Rancho Cucamonga*

Redding

Redwood City

Rialto

Richmond

Rohnert Park

Rolling Hills

Rosemead

San Leandro

San Ramon

Santa Ana

Santa Clara

Santa Clarita

Sausalito

Solana Beach

Stanton

Stockton

Temple City

Tiburon

Tustin

Union City

Upland

Vallejo

Villa Park

West Covina

West Sacramento

Westminster*

Woodland

Yountville

Yuba City

Yucca Valley

COUNTIES

Amador

Contra Costa

Humboldt

Imperial

Inyo

Kern

Kings

Merced

Mono

Nevada

Placer

Plumas

Riverside

San Benito

Shasta

Siskiyou

Solano

Sonoma

Sutter

Trinity

Yolo

Bolded agencies have adopted PRSP

* PRSP only

OPEB/PENSION CLIENT LIST (CONT.)

UPDATED: FEBRUARY 2018

SPECIAL DISTRICTS

Alameda County MAD

Bodega Bay Public Utility District
 Calaveras County Water District
 California JPIA
 California Joint Powers RMA

Central Contra Costa Sanitary District

Central Contra Costa Transit Authority
 Coastside Fire Protection District
 Contra Costa MVCD
 Crestline Village Water District

Delta Diablo (Sanitation District)

Desert Recreation District

East Bay Regional Park District*

East Orange County Water District

Eastern Sierra Community Services District

El Dorado Hills County Water District

Fallbrook Public Utility District

Fresno Irrigation District
 Fresno Metropolitan Flood Control District
 Glenn-Colusa Irrigation District

Goleta West Sanitary District

Great Basin Unified APCD

Hayward Area Recreation & Park District
 Housing Authority of the County of Contra Costa
 Housing Authority of the County of San Bernardino

Humboldt Bay Municipal Water District

Humboldt No. 1 Fire Protection District

Menlo Park Fire Protection District

Mesa Water District

Metropolitan Transportation Commission
 Mid-Peninsula Water District

Mojave Desert AQMD

Montecito Fire Protection District

Monterey Bay UAPCD

Moraga-Orinda Fire Protection District

Municipal Water District of Orange County

Napa County Mosquito Abatement District

Nevada County Consolidated Fire District*

Novato Sanitary District

Orange County Vector Control District
 Orange County Water District
 Placer County Resource Conservation District

Rancho Cucamonga Fire Protection District*

Rancho Murrieta Community Services District
 Rowland Water District

San Mateo County MVCD

Santa Barbara County Law Library

Santa Cruz Regional 9-1-1

South Montebello Irrigation District

South Coast Water District

South Orange County Wastewater Authority
 South Placer Fire Protection District

Southern Marin Fire Protection District

Superior Court of CA, County of Contra Costa
 Superior Court of CA, County of Imperial

Superior Court of CA, County of Inyo

Superior Court of CA, County of Kern

Superior Court of CA, County of Marin
 Superior Court of CA, County of Merced
 Superior Court of CA, County of Orange

Superior Court of CA, County of San Mateo

Superior Court of CA, County of Shasta

Superior Court of CA, County of Siskiyou

Superior Court of CA, County of Sonoma

Sweetwater Springs Water District*

Three Valleys Municipal Water District

Twentynine Palms Water District*

Vallejo Sanitation & Flood Control District

Ventura Regional Sanitation District

Walnut Valley Water District

West Bay Sanitary District

West County Wastewater District

Western Riverside Council of Governments

Yorba Linda Water District

Bolded agencies have adopted PRSP

* PRSP only

OPEB/PENSION CLIENT LIST (CONT.)

UPDATED: FEBRUARY 2018

SCHOOL DISTRICTS

Auburn Union School District

Bass Lake Joint Union Elementary School District

Bellflower Unified School District

Beverly Hills Unified School District

Calistoga Joint Unified School District**Campbell Union High School District**

Compton Unified School District

Corning Union Elementary School District**Coronado Unified School District****Cotati-Rohnert Park Unified School District**

El Dorado Union High School District

Fontana Unified School District

Fowler Unified School District

Hesperia Unified School District

John Swett Unified School District

Lakeside Union School District**Lemon Grove School District**

Manteca Unified School District

Moreno Valley Unified School District

Natomas Unified School District**Ocean View School District****Ontario-Montclair School District****Placer Union High School District**

Red Bluff Joint Union High School District

Red Bluff Union Elementary School District

River Delta Unified School District

Riverdale Joint Union School District

San Bruno Park School District

San Marino Unified School District

Santa Barbara Unified School District

Santa Rita Union School District

Trona Joint Unified School District

Twin Rivers Unified School District

Visalia Unified School District

Westside Union School District

Whittier City School District

Wilsona School District

COMMUNITY COLLEGE DISTRICTS

Citrus CCD***Coast CCD*****Grossmont-Cuyamaca CCD****Hartnell CCD*****Marin CCD****San Bernardino CCD****San Luis Obispo CCD (Cuesta College)***

State Center CCD

Victor Valley CCD***Yosemite CCD**

SPECIAL EDUCATION DISTRICTS

Intelecom

Bolded agencies have adopted PRSP

* PRSP only

PARS CLIENT LIST – PRSP (125)

UPDATED: FEBRUARY 2018

CITIES & TOWNS

City of Alameda
City of Bell Gardens
City of Beverly Hills
City of Brea
City of Brisbane
City of Burlingame
City of Capitola
City of Chino Hills
City of Coronado
City of Cypress
City of Daly City
City of Dublin
City of El Centro
City of El Segundo
City of Fountain Valley
City of Fullerton

City of Glendale
City of Half Moon Bay
City of Healdsburg
City of Hercules
City of Huntington Beach
City of La Mesa
City of Lake Forest
City of Lodi
City of Manhattan Beach
City of Morgan Hill
City of Napa
City of National City
City of Norwalk
City of Oakley
City of Oroville
City of Palo Alto

City of Pasadena
City of Pico Rivera
City of Port Hueneme
City of Rancho Cucamonga
City of Redwood City
City of Rohnert Park
City of Rolling Hills
City of San Ramon
City of Santa Ana
City of Santa Clara
City of Sausalito
City of Solana Beach
City of Stanton
City of Stockton
City of Tustin
City of Union City

City of Upland
City of Vallejo
City of Villa Park
City of West Covina
City of West Sacramento
City of Westminster
City of Yuba City
Town of Colma
Town of Los Altos Hills
Town of Los Gatos
Town of Tiburon
Town of Yountville
Town of Yucca Valley

COUNTIES

County of Humboldt
County of Kings
County of Nevada
County of Placer
County of Plumas
County of Riverside
County of San Benito
County of Siskiyou
County of Solano
County of Sutter

EDUCATION DISTRICTS

Citrus CCD
Coast CCD
Grossmont-Cuyamaca CCD
Hartnell CCD
Marin CCD
San Bernardino CCD
San Luis Obispo CCD (Cuesta College)
Victor Valley CCD
Yosemite CCD
Bass Lake Joint Union ESD
Calistoga Joint USD
Campbell Union HSD
Corning Union ESD
Coronado USD

Cotati-Rohnert Park USD
Fontana USD
Hesperia Unified SD
Lakeside Union SD
Lemon Grove SD
Natomas USD
Ocean View SD
Ontario-Montclair SD
Placer Union HSD
River Delta USD
San Marino USD
Santa Rita Union SD
Visalia USD
Whittier City SD

SPECIAL DISTRICTS

Alameda County MAD
Central Contra Costa Sanitary District
Delta Diablo (Sanitation District)
East Bay Regional Park District
East Orange County Water District
El Dorado Hills County Water District
Fallbrook Public Utility District
Goleta West Sanitary District
Great Basin Unified APCD
Humboldt Bay Municipal Water District
Mesa Water District
Mojave Desert AQMD
Montecito Fire Protection District

Moraga-Orinda Fire Protection District
Napa County MAD
Nevada County Consolidated FD
Novato Sanitary District
Rancho Cucamonga Fire PD
South Coast Water District
Southern Marin Fire Protection District
Superior Court of CA - County of Kern
Sweetwater Springs Water District
Three Valleys Municipal Water District
Twentynine Palms Water District
West Bay Sanitary District
Yorba Linda Water District