



## Item No. 10 Town of Atherton

### **CITY COUNCIL STAFF REPORT –CONSENT AGENDA**

**TO: HONORABLE MAYOR AND CITY COUNCIL  
GEORGE RODERICKS, CITY MANAGER**

**FROM: ROBERT BARRON III, FINANCE DIRECTOR**

**DATE: NOVEMBER 14, 2018**

**SUBJECT: ADOPT THE ATTACHED RESOLUTION OF THE TOWN OF  
ATHERTON AUTHORIZING ADOPTION OF THE SECTION 115 POST  
EMPLOYMENT BENEFITS TRUST ADMINISTERED BY PARS FOR  
PENSION BENEFITS**

#### **RECOMMENDATION**

Adopt the attached Resolution of the Town of Atherton authorizing adoption of the Section 115 Post-Employment Benefits Trust Administered by PARS for Pension Benefits.

#### **BACKGROUND**

One of the City Council's core strategy over the years has been financial stability, a culmination of the Town's guiding value of fiscal stewardship. Part of the long-term fiscal stability includes the identification and reduction of the Town's long-term liabilities. The Town's current only long-term debt is that of employee retirement and post-employment benefits. In Fiscal Year 2011/2012 the Town took an important approach in reducing its long term liabilities with the establishment of an IRS approved Section 115 Irrevocable Trust with PARS (Public Agency Retirement Services) for OPEB (Other Post-Employment Benefits) liabilities. The Irrevocable Trust was created to prefund the Town's OPEB (Other Post-Employment Benefits) retiree health care costs for its employees.

Over the past few years, the City Council took significant steps to reduce the Town's OPEB Liability. Since the opening of the Trust, the Town contributed \$5 million to the Trust and the Trust currently has a fund value of \$6.4 Million. In recent years the Audit/Finance Committee reviewed ways to create funding policy for the City Council's consideration to identify short-falls in the funding strategies of CalPERS pension.

## FINDINGS

Each year the Finance Committee reviews the actuary reports to develop an understanding of potential funding mechanisms for the Town pension liability. New analysis tools were provided into the CalPERS reports to identify what would happen to pension liability with changes in the discount rate, as investment returns are a key driver on employer rates and funded status. Part of the strategy included reviewing how the effects of the discount rate changes could affect the Town in the short or long-term and possibly develop a pay-down strategy to reduce the Town's long-term liabilities. Over the past couple years, CalPERS took significant steps to lower funding risk actions as this included new asset allocation, actuarial assumptions and the new smoothing policies. CalPERS also adopted a Funding Risk Mitigation Policy that addressed risk factors such plan demographics (plans are maturing; public employees living longer) and investment volatility (market return). In December 2016, CalPERS changed the Discount Rate assumptions that will take place over a three year span beginning with FY 2018/19. The rate assumption will have a gradual reduction from 7.5% to 7.0%

As the Committee worked over the years in reviewing the factors in the CalPERS pension liabilities, some opportunities/items were suggested that could be considered by the Town:

- Consideration of additional contributions to CalPERS beyond the required Unfunded Actuarial Liability (UAL) Payment to lower our payroll normal costs. Additional contributions will have the effect of accelerating funding based on alternative amortization schedules in the valuation reports;
- Consideration of accumulation of reserves to establish an Internal Service Fund. Money within the Fund would be used to make singular significant contributions to CalPERS when the Town deems prudent;
- Consideration of establishment of an Irrevocable Supplemental Trust that can *only be used* to make payments directly to CalPERS;
- Consideration of setting a funding target for unfunded liabilities, similar to what was done with Other Post-Employment Benefits (OPEB); or continuation of “pay as you go” with CalPERS valuation reports.

Staff believed the establishment of an Irrevocable Supplemental Trust was one avenue to mitigate pension liabilities. The Finance Committee heard a presentation from the PARS management team regarding its Section 115 Trust Pension Rate Stabilization program (PRSP). The Town currently has the OPEB trust with PARS and the addition of the (PRSP) is similar in structure and would be a combination Trust. This combination trust would allow the Town to access funds at any time (OPEB for OPEB; pension for pension). Some of the benefits include the assets (OPEB and Pension) aggregate and allow the Town to reach lower fees on the tiered schedule. Assets are sub-accounted for separately. The Town can prefund one now and the other later, can choose different investment risk tolerance levels for each. There are no costs to set up and no fees until assets are added.

*Staff recommended to the Finance Committee that adoption of the Trust would **not signify** immediate contributions for pension rate stabilization.* It would allow the Town to have a separate account for pensions similar to OPEB, and provides the benefit of improved credit ratings in future

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action to reduce liabilities. Once the Trust is established, the Town can choose to fund it at any later date. Significant benefits of establishing a PRSP, when and if the Town is ready to contribute to the Trust, allows the set aside of funds toward future pension costs and includes:

1. Local control over assets- the PRSP Trust similar to OPEB can be accessed any time, and used to pay for pensions
2. Pension Rate Stabilization- assets can be transferred to CalPERS plan at the Town's discretion, to reduce or eliminate large fluctuations in employer contributions.
3. Investment Flexibility- the Town maintains oversight, portfolio risk tolerance and diversification.
4. Addresses Pension Liability- contributions placed in the Trust are an asset and reduce the Town's overall liability for financial reporting.

*The Finance Committee reviewed the presentation by PARS and recommends to the City Council to establish a Section 115 Post-Employment Benefits Trust Administered by PARS for Pension Benefits. The recommendation was presented knowing the Town would not make any contributions to the Trust, but only the opening of a Trust. The plan will provide a tool to fund pension liabilities when there are available funds and the Council chooses to allocate funds to the trust. It was also recommended that the Pension Rate Stabilization Fund would follow the OPEB investment strategy of Moderate Passive investment approach. Staff and the Finance Committee recommend the Town adopt the attached resolution and establish a PRSP Trust for pensions.*

**POLICY FOCUS**

As the Town continues to make efforts to attain long-term fiscal health, the identification and reduction of the Town's long-term liabilities aligns with the Town's core strategy of Fiscal Stability. The Town's primary long-term debt is that of employee retirement and post-employment benefits. The policy focus is the consideration of identifying short falls in CalPERS funding and developing a pay down strategy in the context of a sustainable and balanced budget. Establishing a pension rate stabilization trust, allows the Town to set aside funds to meet the shortfalls of pensions.

**FISCAL IMPACT**

No fiscal impact at this time. This is an authorization to only set up the trust.

**COMMISSION/COMMITTEE FEEDBACK/REFERRAL**

This item   X   has or        has not been before a Town Committee or Commission.

- X   Audit/Finance Committee (meets every other month)
- Bicycle/Pedestrian Committee (meets as needed)
- Civic Center Advisory Committee (meets as needed)
- Environmental Programs Committee (meets every other month)
- Park and Recreation Committee (meets each month)
- Planning Commission (meets each month)

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\_\_\_\_\_ Rail Committee (meets every other month)

\_\_\_\_\_ Transportation Committee (meets every other month)

\_\_\_\_\_ Tree Committee (meets each month)

**ATTACHMENT**

Resolution PARS Pension Rate Stabilization Program (PRSP)

**RESOLUTION NO.**

**RESOLUTION OF THE CITY COUNCIL OF THE TOWN OF ATHERTON TO  
ESTABLISH AN IRS APPROVED SECTION 115 IRREVOCABLE TRUST  
FOR PENSION RATE STABILIZATION PROGRAM COSTS  
USING PUBLIC AGENCY RETIREMENT SERVICES (PARS)  
AS THE TRUST PROVIDER**

**WHEREAS** the Town of Atherton (the “Town”) is currently participating in the Public Agencies Post-Retirement Health Care Plan Trust for the pre-funding of its retiree health benefits and other post-employment benefits other than pension benefits (“OPEB”); and

**WHEREAS** the Town desires to establish a pension rate stabilization fund that will allow the Town if it chooses, to set aside funds for the purpose of pre-funding its CalPERS pension obligation that will be held in trust for the exclusive purpose of making future contributions of the Town’s required pension contributions and any employer contributions in excess of such required contributions at the discretion of the Town; and

**WHEREAS** Public Agency Retirement Services (“PARS”) has made available the Public Agencies Post-Employment Benefits Trust (the “Program”) for the purpose of pre-funding both pension obligations and/or OPEB obligations as specified in the Town’s plans or policies; and

**WHEREAS** the Town is eligible to participate in the Program, a tax-exempt trust and plan 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.

**WHEREAS** the Town can manage the pre-funding of its pension and OPEB obligations in a single trust under this Program, thereby gaining administrative and cost efficiencies; and

**WHEREAS** the Town reserves the right to make contributions, if any, to the Program.

**NOW THEREFORE, BE IT RESOLVED THAT:**

1. The City Council hereby adopts the PARS Public Agencies Post-Employment Benefits Trust, effective November 14, 2018; and
2. The City Council hereby appoints the City Manager, or his/her successor or his/her designee as the Town’s Plan Administrator for the Program; and

3. The Town's Plan Administrator is hereby authorized to execute the PARS legal and administrative documents on behalf of the Town and to take whatever additional actions are necessary to maintain the Town'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 Town's PARS plan(s).
  
4. The City Council, in accordance with Section 3.3 of the Public Agencies Post-Retirement Health Care Plan Trust adopted effective May 16, 2012, hereby authorizes the withdrawal from said trust and directs the transfer of assets held in said trust to the OPEB Account established in the name of the City under the Public Agencies Post-Employment Benefits Trust, adopted herewith.

*I hereby certify that the foregoing Resolution was duly and regularly passed and adopted by the City Council of the Town of Atherton at a regular meeting thereof held on the 14<sup>th</sup> day of November, 2018, by the following vote:*

*AYES:*

*NOES:*

*ABSENT:*

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Cary Wiest, Mayor  
Town of Atherton

ATTEST:

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Theresa DellaSanta, City Clerk

APPROVED AS TO FORM:

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William B. Conners, City Attorney