



Staff Report

TO: City Council
FROM: Jennifer Ustation, Finance Director
DATE: December 7, 2021
SUBJECT: Establish Public Agency Retirement Services 115 Trust – Post-Employment Benefits Trust Program Account and Appoint Plan Administrator

Background and Analysis:

On March 3, 2020, the City Council received a presentation from Bartel Associates, LLC regarding the June 30, 2018, valuation preliminary results. This report outlined that pension costs are very likely to increase and outpace revenue growth over the next twelve years. It is also projected that a recession coupled with growing needs is expected to create budget deficits by FY2024.

On March 16, 2021, the City Council approved to commit \$2,500,000 of unassigned fund balance (UAL) in the General Fund toward the City's pension liability and to bring back options at a later date for a use of these funds. Beginning in FY2020, the City also started to pay its annual UAL payment upfront in July rather than paid monthly to save on interest costs. In FY2022, paying the upfront portion of the UAL payment saved the City \$49,594 in interest costs.

On September 21, 2021, the City Council was presented with an update on CalPERS which discussed the current unfunded liability, the recent trigger of CalPERS Funding Risk Mitigation Policy and the status of the current asset liability management process. City Council directed City staff to research pension 115 trust options, model financial scenarios and create a pension funding policy. On November 16, 2021, City Council was presented with those options and agreed on the recommendation of the Public Agency Retirement Services (PARS) administered pension 115 option with HighMark Capital (investment advisor services) and US Bank (trustee services).

CalPERS is in the process of reviewing different portfolio options which could possibly result in a drop of the current discount rate. On November 15, 2021, CalPERS held a three-day Board meeting where it was decided to maintain the discount rate at 6.8 (down from 7.0), that had been established by the Funding Risk Mitigation Policy.

To date, 245 California public agencies have adopted the Pension Rate Stabilization Program (PRSP) through PARS, including 119 cities, such as Riverside, Rialto, Upland, Rancho Cucamonga, Perris, Norco, and Indian Wells.

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;
- Investments can be tailored to the City's unique demographics;
- 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 pension plan related expenses); and
- Potential for positive rating agency and investor consideration.

In an effort to help public agencies address and manage the 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.

Fiscal Impact:

There is no cost associated with adopting the PARS 115 Trust until assets are placed in management with the trust. City staff estimates the cost to prepare this report to be \$490.

Recommended Action:

Waive the full reading and adopt by title only, "A Resolution of the City Council of the City of Beaumont Approving the Adoption of the Public Agencies Post-Employment Benefits Trust Administered by Public Agency Retirement Services (PARS)."

Attachments:

- A. PARS 115 Trust – Pension Rate Stabilization Program (PRSP) Presentation
- B. Agreement for Administrative Services
- C. Resolution