



City Council Staff Report

Subject: Section 115 Trust for Pension

Date: September 26, 2023

Submitted By: Daniel Choe, Deputy Director of Administrative Services

Department: Administrative Services - Finance

Recommendation:

Adopt a Resolution of the City Council of the City of Rocklin Approving the Adoption of the Public Agencies Post-Employment Benefits Trust Administered by Public Agency Retirement Services (PARS).

Background:

During the fiscal years 2021/22 and 2022/23, a portion of year-end savings was set aside to fund a Section 115 Pension Trust, in order to bolster the City's financial health by addressing its future pension obligations and unfunded accrual liabilities. Instead of allocating all resources to the California Public Employees' Retirement System (CalPERS), the City chose to establish a Section 115 Trust. This strategic move is intended to alleviate budgetary pressures stemming from unforeseen spikes in employer contribution rates during emergencies or challenging budget years, providing enhanced flexibility and local control.

Subsequently, the plan to establish a Section 115 Trust for pension prefunding was presented to the Investment Advisory Committee on February 23, 2023. The Committee voted 3-0 to recommend the City Council move forward with the plan.

On April 20, 2023, the Administrative Services Department released a Request for Proposals (RFP) for the Establishment, Administration, and Management Services of a Section 115 Trust for Pensions. The department received three proposals; however, only two of these proposals, one from the CalPERS and the other from Public Agency Retirement Services (PARS), were considered responsive and responsible bids.

The evaluation committee, comprised of staff from the City Manager's Office, Administrative Services Department, and a member from the City's Investment Advisory Committee, evaluated the proposals. Their evaluation considered various factors, including contractors' qualifications in relation to the project, their demonstrated ability to provide the required services in a timely manner, professional references, fee structures, and the overall quality of their responses to the questionnaire outlined in the RFP.

Following a comprehensive evaluation process, the proposal submitted by PARS received the highest ranking and was deemed the most knowledgeable provider. PARS has an impressive track record with over 40 years of experience working with public agencies, including 21 years in administering Section 115 Trust Administration services, and a portfolio of over 500 participating agencies nationwide. Several additional factors contributed to PARS being selected:

- Pioneering Role: PARS is recognized as a pioneer and leading provider of Section 115 Trusts. They are also the developer of both the Pension Rate Stabilization Program and Other Post-Employment Benefits (OPEB).
- IRS Private Letter Ruling: PARS successfully obtained an IRS Private Letter Ruling, ensuring the tax-exempt status of any investment income and capital gains derived from trust assets.
- Pension Prefunding Expertise: PARS is the single largest provider of pension-prefunding services, trusted by over 280 California agencies for pension prefunding.
- Reimbursement Flexibility: PARS offers the unique advantage of allowing two years of reimbursements back to the City. This feature proves invaluable in case of unforeseen emergencies or challenging budget years.
- Diverse Investment Strategies: PARS stands out by providing a range of investment strategies tailored to the City's unique demographics. They offer four distinct investment strategies, granting the City flexibility in managing its assets.

PARS possesses extensive experience in managing pension trusts and offers a higher level of service, including comprehensive assistance in developing an investment policy related to pension prefunding, providing funding recommendations, and ensuring greater flexibility in investment options. These services are guided by a professional fund management team selected and closely monitored by the City. Furthermore, contributions to and distributions from the trust are determined at the discretion of the City, providing a high degree of control and customization.

The City's all-in-fees for trust administration, investment advisory/management, and trustee is approximately 0.304% of assets. The City currently has \$1,339,300 set aside for a Section 115 Pension Trust. Staff recommends utilizing the \$1.3 million as an initial contribution to fund the Section 115 Pension Trust.

Attachment 1 is the Resolution for the City Council to adopt a Section 115 Pension Trust administered by PARS, as well as appointing the City Manager, or designee, as Plan Administrator. Attachment 2 is the Contract with PARS. Upon adoption of the Resolution, the Contract will be processed along with the corresponding agreements from Vanguard and US Bank to fully implement the Section 115 Trust.

Fiscal Impact:

With approval of staff recommendation, the City would use approximately \$1.3 million from the fund balance of the General Fund, which was set aside for this purpose, to provide an initial contribution towards funding the Section 115 Pension Trust.

ATTACHMENTS:

1. [Resolution](#)
2. [Exhibit A to Resolution - Contract](#)