

City of Brisbane

City Council

Agenda Report

To: City Council via City Manager

From: Stuart Schillinger, Administrative Services Director

Subject: Adopt Resolution No. 2016-39 Approving the Adoption of the Public Agencies Post-Employment Benefits Trust Administered by Public Agency Retirement Services (PARS)

Date: November 3, 2016

Purpose:

To ensure the City's long-term financial viability while maintaining a capable and motivated workforce.

Recommendation:

Adopt Resolution No. 2016-39 which authorizes participation in the Public Agency Retirement Services (PARS) Post-Employment Benefits Trust Program to be administered by PARS and U.S. Bank, appointing the Administrative Services Director as the City's Plan Administrator, and authorizing the Administrative Services Director to execute the documents to implement the Program.

Background:

As part of the budget process the City Council has reviewed the City of Brisbane's unfunded liability position for its retirement program as administered by CalPERS. As of June 30, 2015 (the latest information the City has) we had an unfunded liability of \$7.8 million for our non-safety personnel and \$7.4 million for our safety personnel. The current unfunded liability is based on:

- 1) a change in the actuarial assumptions (time of retirement, and anticipated life expectancies) which resulted in a \$3.3 million additional liability,
- 2) the market downturn in 2007 – 2010 which accounts for \$14.3 million of the unfunded liability,
- 3) below expected rate of return in 2015 which accounts for \$2.8 million of the unfunded liability
- 4) and on a positive note 2014 had a higher than expected return which reduced the liability by \$5.0 million.

PERs currently has a plan to pay off the unfunded liability in a fixed period of time. When there is a newly created unfunded liability which happens anytime the investments earn less than the anticipated 7.5%. PERs will create a repayment schedule of 30 years. If the City wants to pay off this liability sooner it can fund PERs at a higher rate than requested. However, when PERs has higher than anticipated returns on investment it will decrease unfunded liability over 30 years as well (as happened in 2014). This method will hopefully decrease the large increases the City sees in PERs rates and ensure that all unfunded liabilities will be paid off over a fixed period of time.

Discussion:

Our current repayment plan in PERS has the City increasing its unfunded liability payment from about \$900,000 in FY 2016/17 to \$1.9 million in FY 2030/31. After that year it decreases each year until it is completely paid off in FY 2045/46. In that year our unfunded liability payment will be about \$100,000.

When the Council adopted the budget in June 2016 it decided to begin to set aside money to offset this liability. The City can send additional money to PERS every year decrease the liability. PERS would invest our money as part of their overall investment plan and our additional money would be subject to the volatility and risk associated with PERS. Or, the City can use a different Trustee and investment firm for these funds.

The City currently uses a different Trustee (PARS) and investment firm (U.S. Bank) for two of its post retirement programs (City Manager's 401(a) and the City's Other Post-Employment Benefits (OPEB). The reason the City chose PARS and U.S. Bank for the other post retirement programs was the flexibility of investment options. U.S. Bank offers five different risk tolerance portfolios. The City has chosen a more conservative portfolio for both the 401 (a) and the OPEB plans, than the normal PERS portfolio. The City invests in a portfolio which splits investments 50% in Equities and 50% in Fixed Income vehicles. The rate of return in 2015 was 2.4%. This compares to PERS which is about 60% in Equities, 28% in Fixed Income, and 12% in Real Assets. In 2015 PERS had a similar rate of return of 2.4%.


By using the PARS alternative the City could decide when to use the funds to offset retirement benefit costs. For instance, if the City has enough funds over next five years to pay PERS the full amount owed it could save money in the PARS account and use it only when the City needed assistance in making the PERS payment. If the City was to invest with PERS our liability would be decreased by the amount of the investment and all of our payments over the 30 years would be decreased. If PERS has better years and our liability decreases over time we could use the PARS payment to assist the City in making the PERS Normal Cost payment. According to the new retirement law passed by the Legislature two years ago the City could not use funds in our PERS account to offset a Normal Cost payment. The Normal Cost is what is anticipated the City owes for a person working in the current year of employment. Therefore, PARS provides a higher level of flexibility than PERS does.

Fiscal Impact:

Investments made in either PERS or PARS will lower our Unfunded Liability for retirement. The amount invested each year and earnings will determine how quickly the unfunded liability would be paid off.



Stuart Schillinger
Administrative Services Director



Clay Holstine
City Manager

RESOLUTION NO. 2016-39

RESOLUTION OF THE CITY COUNCIL
OF THE CITY OF BRISBANE
APPROVING THE ADOPTION OF THE
PUBLIC AGENCIES POST-EMPLOYMENT BENEFITS TRUST
ADMINISTERED BY PUBLIC AGENCY RETIREMENT SERVICES (PARS)

WHEREAS the City of Brisbane (the "City") 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 City desires 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 City's required pension contributions and any employer contributions in excess of such required contributions at the discretion of the City; and

WHEREAS 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 City's plans, policies and/or applicable collective bargaining agreements; and

WHEREAS the City is eligible to participate in the Program, 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 there under, and is a tax-exempt trust under the relevant statutory provisions of the State of California; and

WHEREAS the City 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 City'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 City'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 City reserves the right to make contributions, if any, to the Program.

NOW THEREFORE, BE IT RESOLVED THAT:

1. The City Council hereby adopts the Public Agencies Post-Employment Benefits Trust, effective November 3, 2016; and
2. The City Council hereby appoints the Administrative Services Director, or his/her successor or his/her designee as the City's Plan Administrator for the Program; and
3. The City's Plan Administrator is hereby authorized to execute the PARS legal and administrative documents on behalf of the City and to take whatever additional actions are necessary to maintain the City'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 City's Program; and
4. The City Council, hereby authorizes the Plan Administrator, in accordance with Section 3.3 of the Public Agencies Post-Retirement Health Care Plan Trust adopted effective February 6, 2015 to withdraw from said

trust and direct 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.

AYES:

NOES:

ABSENT:

ABSTAIN:

STATE OF CALIFORNIA
COUNTY OF SAN MATEO

Ingrid Padilla, the Clerk of the City of Brisbane, State of California, hereby certifies that the above foregoing resolution was duly and regularly adopted by said City at a regular meeting thereof held on the 3rd of November 2016, and passed by a _____ vote of said Council

IN WITNESS WHEREOF I have hereunto set my hand and seal this _____, 2016.

City Clerk