




CITY of CALABASAS
CITY COUNCIL AGENDA REPORT

DATE: JUNE 13, 2022

TO: HONORABLE MAYOR AND COUNCILMEMBERS

FROM: KINDON MEIK, CITY MANAGER
RON AHLERS, CHIEF FINANCIAL OFFICER 

SUBJECT: CALPERS PRESENTATION ON THEIR INTERNAL REVENUE CODE SECTION 115 TRUST

MEETING DATE: JUNE 22, 2022

SUMMARY RECOMMENDATION:

Staff is requesting the City Council hear the presentation by California Public Employees Retirement System (CalPERS) regarding their Internal Revenue Code Section 115 Trust {IRC 115 Trust}.

Staff will return in August with a comparison of the two presentations between CalPERS and PARS. Staff will make a recommendation at that time between the two plans.

BACKGROUND:

The City can establish an IRC 115 Trust to set-aside monies for future pension costs. The City can establish an IRC 115 Trust to set-aside monies for Other Post-Employment Benefits (OPEB) which are retiree medical costs. The City Council at the May 18, 2022, Council meeting provided direction to City staff to establish a IRC 115 Trust for future pension costs and OPEB. At the May 18th meeting the City Council listened to a presentation by Public Agency Retirement Services (PARS) regarding their IRC 115 Trust. The City Council requested presentations by CalPERS and Public Financial Management (PFM) as well.

DISCUSSION/ANALYSIS:

As a reminder to the City Council, the advantages of using an IRC 115 Trust:

- City retains oversight and control of the assets
- City selects the investment strategy of the assets (stocks, bonds, cash)
- Assets can earn a much higher rate of return versus City’s Investment Policy
- Assets can be used to offset unexpected increases in PERS contributions
- Rating agencies view these accounts favorably
- Reduces “Net Pension Liability” on the City’s financial report
- Reduces “Net OPEB Liability” on the City’s financial report
- City can decide to not withdraw money and let the assets grow indefinitely

Disadvantages of using an IRC 115 Trust:

- Assets invested in stocks and bonds which can fluctuate negatively in value
- Assets are in an “Irrevocable Trust”
- Assets must be used for pension or OPEB costs ONLY
- Assets cannot be used for other purposes (i.e. Balance the General Fund)

Staff contacted PFM and requested they submit a proposal and presentation to the City Council regarding their IRC 115 Trust. PFM was grateful for the contact and has declined the invitation to make a proposal. PFM stated their fees are a minimum of \$25,000 annually for their services; which places them at a distinct cost disadvantage to CalPERS and PARS.

CalPERS is presenting their proposal to the City regarding their IRC 115 Trust for pensions and OPEB.

FISCAL IMPACT/SOURCE OF FUNDING:

None

REQUESTED ACTION:

Review the presentation by CalPERS regarding their IRC 115 Trust.

Staff will return at a City Council meeting in August 2022 with a comparison of the two presentations between CalPERS and PARS. Staff will make a recommendation at that time between the two plans.

ATTACHMENTS:

1. Presentation by CalPERS, “PARS 115 TRUST – OPEB Prefunding Program & Pension Rate Stabilization Program (PRSP)”