



**CITY of CALABASAS**  
**CITY COUNCIL AGENDA REPORT**

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**DATE: AUGUST 15, 2022**

**TO: HONORABLE MAYOR AND COUNCILMEMBERS**

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



**SUBJECT: COMPARISON OF PARS VERSUS CALPERS INTERNAL REVENUE CODE SECTION 115 TRUST AND SELECTION OF CITY 115 TRUST ADMINISTRATOR. RESOLUTION OF APPROPRIATION OF \$2,000,000 FOR THE PENSION 115 TRUST AND \$250,000 FOR THE OPEB 115 TRUST**

**MEETING DATE: AUGUST 24, 2022**

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**SUMMARY RECOMMENDATION:**

Staff recommends establishing an Internal Revenue Code Section 115 Trust {IRC 115 Trust} with the Public Agency Retirement Services (PARS). The initial investment shall be \$2,000,000 to the Pension fund and \$250,000 to the Other Post Employment Benefit (OPEB) fund.

**BACKGROUND:**

On May 18, 2022, the City Council received a report regarding the City's Unfunded Accrued Liability (UAL) of the CalPERS Pension. The City's UAL for pensions as of June 30, 2020 is \$9.1 million. The June 30, 2021 report shall be released within the next two months. The Council received a report regarding the unfunded liability of the City's OPEB at \$8.8 million. The City's OPEB liability concerns our retiree medical insurance costs. Council also received a report about IRC 115 Trusts. Lastly, there was a presentation given by PARS regarding their IRC 115 Trust. City

Council directed staff to invest \$2 million to the UAL for pensions and \$250,000 for OPEB.

On June 22, 2022, the City Council received the CalPERS presentation on their IRC 115 Trust. Council directed staff to return in August to provide a comparison of the two competing programs and recommend a provider. As a reminder, Public Financial Management (PFM) declined to provide an IRC 115 Trust proposal to the City due to their cost structure.

**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 has attached presentation materials from CalPERS and PARS to this report. A short comparison of the two companies and what they offer is displayed below. A basis point equals one-hundredth of a percent (1 basis point = 0.01%).

	<b>CalPERS</b>	<b>PARS</b>
Trust structure	2 trusts (Pension & OPEB)	One combined Trust
Fees	10 basis points OPEB 25 basis points Pensions	60 basis points to start Fees decline as assets grow
Investment Choices	3 portfolios for OPEB 2 portfolios for Pension	5 portfolios
Investment Returns	Range of expected returns is 4.0% to 7.6%	Range of 10-year actual returns is 3.8% to 9.2%
Who controls the investment selection	CalPERS board controls	PARS and U.S. Bank

The City contracts with CalPERS to provide pension benefits for all full-time employees. There are actually two pension plans provided to the full-time employees: Classic 2% @ 55 and PEPRRA 2% @ 62. The Classic 2% @ 55 plan has approximately \$39.5 million in assets as of June 30, 2021. The PEPRRA 2% @ 62 plan has approximately \$1 million in assets as of June 30, 2021. Therefore, the City has invested \$40.5 million in assets with CalPERS. This is a large investment of assets with one entity. The City needs to diversify who has control over City assets. There is also the issue of transparency with CalPERS and how little information is provided to the City regarding assets within the IRC 115 Trust and the performance of the fund.

PARS has hundreds of clients that are California government entities (cities, counties, special districts). PARS and U.S. Bank provide portfolio results to the City through an on-site portfolio review with a dedicated portfolio manager.

Staff recommends the Council select PARS to administer the City's 115 trust for OPEB and Pension. The City currently has \$40.5 million with CalPERS. Staff believes it is prudent and wise to invest the \$2¼ million and future contributions with PARS in order to diversify who manages the city's assets.

**FISCAL IMPACT/SOURCE OF FUNDING:**

Invest \$2¼ million from the General Fund in an IRC 115 Trust for Pension and OPEB.

**REQUESTED ACTION:**

Staff recommends the Council adopt the attached resolution appropriating \$2¼ million into an IRC 115 Trust. Staff recommends the Council authorize the City Manager or his designee to enter into contracts and administrative agreements with PARS and U.S. Bank as trustee to establish the City's IRC 115 Trust for Pensions and OPEB.

**ATTACHMENTS:**

1. CalPERS: "Pension & OPEB Cost Considerations City of Calabasas"
2. PARS: "City of Calabasas PARS 115 Trust"
3. Resolution of Appropriation