



A Tradition of Stewardship
A Commitment to Service

Agenda Date: 10/30/2018

Agenda Placement: 10E

NAPA COUNTY BOARD OF SUPERVISORS Board Agenda Letter

TO: Board of Supervisors

FROM: Minh Tran - County Executive Officer
County Executive Office

REPORT BY: Mary Booher, Assistant County Executive Officer - 707-253-4153

SUBJECT: Pension and OPEB update and establishment of 115 Trust for Pension

RECOMMENDATION

County Executive Officer requests that the Board

1. Receive an annual report on the unfunded liability associated with Other Post-Employment Benefits (OPEB);
2. Receive an update on the unfunded liability associated with California Public Employees' Retirement System (CalPERS) pensions;
3. Adopt a Resolution establishing a Pension Trust administered by Public Agency Retirement Services (PARS) and appointing the County Executive Officer as the Plan Administrator;
4. Authorize the cancellation of the General Fund Assignment for future pension contributions of \$4,271,020 (4/5 vote required);
5. Approve a Budget Transfer No. CE0003 increasing appropriations in the General Expenditure Budget (10510) Retirement (51600), by \$4,271,020, offset by available fund balance (4/5 vote required);
6. Direct staff to initiate process to move OPEB funds, currently with the CalPERS California Employers' Retiree Benefit Trust (CERBT) plan to the PARS plan; and
7. Adopt Napa County Policy for 115 Trust administration.

EXECUTIVE SUMMARY

Napa County contracts with the California Public Employees' Retirement System (CalPERS) to provide retirement benefits for permanent County employees. Each year, we receive actuarial valuation reports, which identify the employer contribution rates for the following year, as well as the unfunded accrued actuarial liability (UAAL). The UAAL has grown significantly over the past several years due to changes in benefits, reduced earnings due to the recession, and policy changes enacted by the CalPERS Board, such as reductions to the assumed discount rate, and shorter amortization schedules for these liabilities. The increase in the UAAL results in employer contribution

rates increasing much more rapidly than our growth in revenues. Based on the June 30, 2017 CalPERS valuation reports, which were published in August 2018, the UAAL for Napa County is \$238 million. With CalPERS assets of \$682 million, our funded ratio is currently 74.1%.

Napa County provides other post-employment benefits (OPEB) to employees, based on the Memoranda of Understanding (MOU's) with the bargaining units. These have traditionally included medical, dental, vision, and term life insurance. Napa County paid for these benefits on a pay-as-you-go basis. As the cost for these benefits increased at a much higher rate than other costs, and corresponding revenue, the County began to address the future growth in these costs through the negotiation and implementation of tiered benefit programs. In addition, in 2007, the Board established a Trust fund, as authorized by IRS Code Section 115 ("115 Trust"), with CalPERS California Employers' Retiree Benefits Trust (CERBT) to begin funding the OPEB UAAL. Attachment A provides an update on the OPEB liability and the OPEB 115 Trust.

Today, staff is requesting that the Board establish a Combination 115 Trust for Pension and OPEB with Public Agency Retirement Services (PARS), to begin addressing the Pension UAAL, as well as direct staff to move the CERBT OPEB 115 Trust to PARS, to take advantage of lower administration fees based on the total value of the assets. The initial investment for the Pension 115 Trust will be \$4,271,020 that the Board has assigned as part of the Fiscal Year 2017-18 and 2018-19 budgets to address future pension liabilities. Staff is also requesting the Board adopt a policy providing oversight for the administration of 115 Trusts in Napa County.

PROCEDURAL REQUIREMENTS

1. Staff reports.
2. Public comments.
3. Motion, second, discussion and vote on the item.

FISCAL IMPACT

Is there a Fiscal Impact?	Yes
Is it currently budgeted?	Yes
Where is it budgeted?	Non-Departmental.
Is it Mandatory or Discretionary?	Discretionary
Discretionary Justification:	Approval of this item begins a long-term investment to reduce the unfunded liability associated with pension, which will result in reduced rate of growth for future pension rates.
Is the general fund affected?	Yes
Future fiscal impact:	The Board will be given the opportunity, through the annual budget process, to make additional investments into this trust fund.
Consequences if not approved:	Future pension contributions will continue to grow rapidly, which will possibly result in reduced services in the future.
Additional Information:	

ENVIRONMENTAL IMPACT

ENVIRONMENTAL DETERMINATION: The proposed action is not a project as defined by 14 California Code of Regulations 15378 (State CEQA Guidelines) and therefore CEQA is not applicable.

BACKGROUND AND DISCUSSION

As part of the Fiscal Year 2017-18 adopted budget, the Board established an assignment of \$1 million of General Fund for future pension liabilities. As part of the Fiscal Year 2018-19 adopted budget, the Board increased this assignment by \$3.271 million. As an assignment, those funds are invested with the County Treasury, in which the effective rate of return for August 2018 was 1.76%. By establishing a Pension Trust Fund, pursuant to IRS Code Section 115 ("115 Trust"), the County will be able to utilize an investment strategy more similar to that used by CalPERS, which are designed to provide annualized returns of 4-6%, depending on investment strategy. As a 115 Trust, these funds would only be available to fund future pension liabilities.

Staff reached out to all three entities that provide 115 Trust Services for Pension in California, and selected Public Agency Retirement Services (PARS) to partner with Napa County in establishing a 115 Trust, based on their experience in California and their competitive fee structure. PARS will provide trust administration and consultation services, including recordkeeping, accounting, actuarial coordination, monitor contributions, process disbursements, and monitoring compliance. As partners to PARS, U.S. Bank will be the trustee, which includes being the plan fiduciary and the custodian of the assets, and HighMark Capital will be the investment manager. 26 counties have adopted the PARS 115 Trust to fund either Pension or OPEB or both, making PARS the leading provider.

The administration costs of the Pension 115 Trust are funded by the plan assets, and are based on the value of the assets. Administrative Fees paid to PARS range from 0.25% for balances less than \$10 million to 0.10% for balances above \$50 million. Investment Fees paid to U.S. Bank and HighMark Capital range from range from 0.35% for balances less than \$5 million to 0.10% for balances above \$50 million.

HighMark offers five different investment portfolios that they actively manage, and four different investment portfolios that they passively manage. Attachment B shows the historical returns. Solano County has chosen to manage their investment portfolio internally, however staff believes that the options offered by PARS, vis-à-vis HighMark, meet Napa County's needs in a cost effective manner.

COMBINATION 115 TRUST ESTABLISHMENT:

In addition to establishing a 115 Trust for Pension, staff recommends moving the assets from the CalPERS CERBT 115 Trust for OPEB into a combination 115 Trust with PARS, in which the OPEB assets are accounted for separately from Pension. As shown in Attachment B, PARS has historically had better return rates on similar investment strategies, and combining these funds will allow Napa County to take advantage of the lowest fee rates from PARS for the 115 Trust.

Attachment C is a resolution that establishes the Combination 115 Trust for Pension and OPEB with PARS and appoints the County Executive Officer as the Plan Administrator for the program. The Plan Administrator is responsible for executing the legal and administrative documents for the plan. Upon establishment, staff will deposit the current assignment of \$4.271 million into the trust. If approved by the Board, staff will return with actions necessary to move the OPEB assets from CERBT to PARS.

Should the Board authorize staff to consolidate the 115 Trust for Pension and OPEB with PARS, staff recommends a different investment strategy for each sub-account. Due to the balance of approximately \$70 million in OPEB assets, staff recommends the "Conservative-Actively Managed" portfolio. However, sSince we are just establishing

the trust for Pension assets, staff recommends the more aggressive approach offered with the “Balanced-Actively Managed” portfolio. Due to the balance of approximately \$70 million in OPEB assets, staff will meet with HighMark investment advisors and return to the Board with an investment strategy recommendation at the same time the Board authorizes the actions necessary to move the OPEB assets from CERBT.

As an alternative, should the Board not authorize staff to consolidate the 115 Trusts for Pension and OPEB with PARS, staff still recommends investing the Pension assets in the “Balanced-Actively Managed” portfolio. Staff recommends shifting the investment strategy with CERBT from Strategy 1 to Strategy 2, a more conservative strategy, in order to preserve the assets in this trust.

115 TRUST POLICY & OVERSIGHT:

In order to ensure ongoing oversight of the 115 Trust for Pension and OPEB, staff recommends the Board adopt the attached policy. This policy is important because unlike the investment policy that governs the County Treasury, these trust funds are designated to address future liabilities, and therefore have unique risks and opportunities. Staff also evaluated the possibility of utilizing the Deferred Compensation Committee to oversee these Trust funds, however, the Deferred Compensation funds are employee funds, and these Trust funds are County assets reported as part of the Comprehensive Annual Financial Report.

The proposed policy (Attachment D) provides the Board with the authority for investment strategies, based on recommendations from an Oversight Committee and the County Executive Officer. The CEO’s office will prepare an annual report to the Board, and the annual report will contain recommendations regarding the investment strategy. The Oversight Committee will review the report prior to submission to the Board.

Later in the 2018-19 Fiscal Year, staff will bring a funding policy to the Board to recommend a long-term strategy to fund the 115 Trust for Pension and OPEB in a manner that maximizes equitable contributions from all funding sources, not just the General Fund. The Oversight Committee will be involved in the development of this policy.

SUPPORTING DOCUMENTS

- A . OPEB Trust annual report
- B . 115 Trust Resolution with exhibit
- C . Historical Performance Comparison
- D . 115 Trust policy

CEO Recommendation: Approve

Reviewed By: Molly Rattigan