



# CITY OF CALISTOGA

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## STAFF REPORT

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**TO:** Honorable Mayor and City Council  
**FROM:** Dylan Feik, City Manager  
**PREPARED BY:** Gloria Leon, Administrative Services Director  
**DATE:** March 19, 2019  
**SUBJECT:** Consideration to establish a Pension Rate Stabilization Program (PRSP) and Other Post-Employment Benefits (OPEB) Pre-Funding Policy

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**SIGNATURE:**

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**DYLAN FEIK, City Manager**

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**DESCRIPTION:** Consideration to establish a Pension Rate Stabilization Program (PRSP) and Other Post-Employment Benefits (OPEB) Pre-Funding Policy; Adopt a Resolution approving the adoption of the Public Agencies Post-Employment Benefits Trust administered by Public Agency Retirement Services (PARS); Authorize to enter an agreement for Administrative Services with PARS.

**RECOMMENDATION:** Staff recommends the City Council to take the following action:

- A. Adopt a Resolution approving the adoption of the Public Agencies Post-Employment Benefits Trust administered by Public Agency Retirement Services (PARS)
- B. Adopt the attached Pension Rate Stabilization Program (PRSP) and Other Post Employee Benefits (OPEB) Pre-Funding Policy
- C. Authorize the City Manager to enter into an agreement for Administrative Services with PARS

**PURPOSE:** To formally adopt policy documents authorizing implementation of a trust fund for a pension rate stabilization program (PRSP) and OPEB pre-funding.

**BACKGROUND:**

In 2012, the Government Accounting Standards Board (GASB) issued Statement No. 68, Accounting and Financial Reporting for Pensions. GASB 68 requires that all governmental employers that sponsor Defined Benefit Plans such as that of the City's Public Employees' Retirement System (CalPERS) must recognize a net pension liability, also known as an unfunded actuarial accrued liability on their statement of net position. This is the difference between the City's total pension liability (actuarial accrued liability) and actual plan assets. The City's actuarial reports dated June 30, 2017, included an unfunded liability of \$9.4 million.

As part of the budget process, City Council has approved the setting aside of funds to pay down the unfunded liability. For FY 18-19 operating budget, the Council approved the set aside of \$227,000 from the General Fund. Those funds have been set aside in fund 96, employee benefits fund and will be transferred to the unfunded side fund upon City Council approval. As a reminder in May 2017, upon Council approval \$1,800,000 was sent to CalPERS and \$1,000,000 in May 2018.

At this time City Council has two options: (1) transfer the \$277,000 to an outside third-party irrevocable trust where they can only be used for future CalPERS retirement or OPEB costs or (2) just leave the funds in fund 96.

Unfunded retirement liabilities are a serious problem that all public agencies need to address, but it will not be solved in a short time. The City's pension liabilities can be likened to a home mortgage; the principal amount owing is paid off a little at a time over an extended time. Proactive agencies are establishing Pension Rate Stabilization Program (PRSP) trust funds that are controlled at the local level. Annual contributions can be made to the PRSP which will help reduce the total unfunded liability and funds can be used from the PRSP to buy down future cost increases with CalPERS. This can help stabilize pension costs in future years.

**ANALYSIS:** To date, the most widely adopted PRSP for government agencies has been the plan sponsored by Public Agency Retirement Services (PARS). This particular plan includes both a Pension Rate Stabilization Program (PRSP) and Other Post-Employment Benefits (OPEB) Pre-Funding component using an Internal Revenue Service approved Section 115 Trust fund.

The PRSP allows the City to set aside funds towards future CalPERS costs. The benefits provided for establishing a formal IRS Section 115 approved Trust such as this includes:

- 1) Local control over assets-the trust can be accessed at any time so long as it is used to pay the employer's pension obligation;

- 2) Pension Rate Stabilization-assets can be transferred to a CalPERS plan at the City's discretion, which would reduce or eliminate large fluctuations in employer contributions to CalPERS;
- 3) Investment Flexibility-investment requirements that apply to the City's funds under Government Code 53601 are not applicable to assets held in an irrevocable Section 115 Trust. The City maintains oversight of the investment manager and the portfolio's risk tolerance level and the investments can be diversified and invested in a prudent fashion.
- 4) Lower Net Pension Liability (NPL) contributions placed in the Trust reduce the City's unfunded pension liability. Assets placed into the Trust will directly reduce the City's NPL for financial reporting purposes as required by Governmental Accounting Standards Board Statement No. 68;
- 5) Improved Credit Rating-rating agencies may look favorably upon actions to reduce liabilities. This is considered a best practice among governmental finance professionals.

In 2015, the Government Accounting Standards Board (GASB) issued Statement No.75, Accounting and Financial Reporting for Postemployment Benefits other than Pensions. This also requires the City to recognize a net pension liability, also known as other postemployment benefits, (OPEB) on their statement of net position. The OPEB component for City of Calistoga is a small portion of our liabilities in comparison to our unfunded pension liability. As of June 30, 2018, our OPEB liability was \$2,314,284.

The City is required to have an OPEB actuarial study done every three years. The City currently had an actuarial valuation of OPEB liabilities done by MacLeod Watts to determine the annual OPEB expense to be reported in the City's financial statements for the fiscal year ending June 30, 2018. A copy of the report is attached as Exhibit 5. The report introduces an "explicit and implicit subsidy" liability, not previously required to be valued by the City under GASB 45 as of June 30, 2017. The report also includes an estimated liability for the excise taxes expected to be paid for retirees covered by high cost plans beginning in 2022 under the Affordable Care Act.

MacLeod Watts estimated the unfunded actuarial accrued liability to be \$2,314,284 under the assumption of pay-as-you-go as of June 30, 2018. At June 30, 2018 the City made contributions of \$71,494.

The City's OPEB liability is for:

- 1) The plan provides for unrepresented retirees with at least 10 years of City service, at the rate of 3% per service year to a rate of 3.5% per service after twenty years of continuous service to receive a monthly health insurance premium for a single individual and capped at the Kaiser rate. The benefit continues until the unrepresented retiree reaches the age of 65. The plan for the unrepresented employees was eliminated for any new unrepresented hires after April 21, 2015.

- 2) The CalPERS Public Employer Medical Care Health Act (PEMCHA) portion of premiums for retired department employees who participate in the CalPERS healthcare program (in 2018, the PEMCHA healthcare benefit was equal to \$93.10 per month).

Staff is most interested in the PRSP component of the Trust due to the ability to use the balance in the PRSP to stabilize future rate contributions. City staff analyzes the actuarial reports each year and develops cost projections based upon the most recent actuarial information provided by CalPERS.

The City of Calistoga will pay ongoing fees to PARS for assets \$0-10 million in the amount of .25% for trust administration and consulting fees and discretionary trustee/investment management fees to US Bank and Highmark Capital Management for assets under \$5 million in the amount of .35%. The fees will be paid from trust assets and staff anticipates investment earnings will cover the fees.

The attached Pension Rate Stabilization Program (PRSP) and Other Post-Employment Benefits (OPEB) Pre-Funding Policy includes sections related to the initial set-up of the Plans, the administrator, trustee, investment advisor, asset allocation investment strategy, and annual minimum and maximum parameters for annual contributions and annual withdrawals.

**ALTERNATIVES:**

- 1) Do not approve PRSP and OPEB Pre-Funding; and/or
- 2) Make changes to the Administrative Policy attached

**FISCAL IMPACT:** Adoption of these documents establishes an approved Internal Revenue Section 115 Trust Fund to set aside funds for a pension rate stabilization program for future retirement contributions to CalPERS and to pay employee's OPEB costs.

**ATTACHMENTS:**

1. Resolution approving the adoption of the Public Agencies Post-Employment Benefits Trust Administered by the Public Agency Retirement Service (PARS)
2. Pension Rate Stabilization Program (PRSP) and Other Post-Employment Benefits (OPEB) Pre-Funding Policy
3. Agreement for Administrative Services
4. Internal Revenue Service Ruling Approving 115 Trust
5. MacLeod Watts GASB 75 Actuarial Report for the Fiscal Year Ending June 30, 2018

## RESOLUTION 2019-XXX

**RESOLUTION OF THE CITY COUNCIL OF THE CITY OF CALISTOGA,  
COUNTY OF NAPA, STATE OF CALIFORNIA, APPROVING THE ADOPTION  
OF THE PUBLIC AGENCIES POST-EMPLOYMENT BENEFITS TRUST  
ADMINISTERED BY THE PUBLIC AGENCY RETIREMENT SERVICES (PARS)**

**WHEREAS**, PARS has made available the PARS Public Agencies Post-Employment Benefits Trust (the "Program") for the purpose of pre-funding pension obligations and/or OPEB obligations; 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'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 Council reserves the right to make contributions, if any, to the Program,

**NOW THEREFORE BE IT RESOLVED** the City Council of the City Calistoga does hereby resolve as follows:

1. The City Council hereby adopts the PARS Public Agencies Post-Employment Benefits Trust, effective April 1, 2019; and
2. The City Council hereby appoints the City Manager, 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.

51 **PASSED AND ADOPTED** as a resolution of the City of Calistoga at the  
52 regular meeting held on this **19th day of March, 2019** by the following vote:

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54 **AYES:**

55 **NOES:**

56 **ABSENT:**

57 **ABSTAIN:**

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**CHRIS CANNING, Mayor**

**ATTEST:**

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**IRENE CAMACHO-WERBY, City Clerk**