



City of Santa Rosa

Legislation Details

File #:	22-0359	Version:	1	Name:	Section 115 Trust
Type:	CC- Report	Status:		Agenda Ready:	Agenda Ready
File created:	4/19/2022	In control:		City Council:	City Council
On agenda:	5/10/2022	Final action:			
Title:	REPORT - APPROVAL OF SECTION 115 TRUST AGREEMENTS AND APPROPRIATION OF INITIAL FUNDING				

BACKGROUND: In September 2021, the staff presented pension funding strategies to the City Council at a study session. One such strategy is to establish an Internal Revenue Code Section 115 Trust (Trust), which is an actively managed fund, outside the City's investment portfolio, that may only be used to pay pension obligations. The City would use this Trust initially to reduce the current unfunded accrued liability (UAL) associated with its CalPERS pensions.

Staff proposes an initial deposit to the Trust of \$10,000,000 from the fiscal stability funds assigned in the General Fund reserves, and \$4,400,000 from Santa Rosa Water (SRW) enterprise funds reserves to pre-fund pension obligations. Annual contributions to the Trust from the General Fund and SRW will begin after the City's existing Pension Obligation Bonds are paid off in 2024. By redirecting budget the debt service payments to Trust contributions, the City will benefit from annual contributions to build up Trust balances without increasing the budget.

The City's strategy relative to the Trust is to use it as a long-term investment vehicle to address the City's CalPERS UAL. The initial funding goal will be to accumulate a balance in the trust equal to the General Fund's highest scheduled annual UAL payment; then to use the Trust in combination with CalPERS valuation reports to achieve 100% funded status; and finally to utilize the Trust as a pension stabilization fund by using the accumulated funds to offset future higher-than-usual normal cost or UAL payments.

RECOMMENDATION: It is recommended by the Finance Department that the Council, by resolution: 1) approve the execution of the Adoption Agreement for the Post-Employment Benefits Trust (Adoption Agreement) between the City and PFM Asset Management LLC (PFMAM) incorporating and adopting the Trust Agreement as well as approving the Trust Administrative Services Agreement and Investment Policy Statements included as exhibits to the Adoption Agreement; 2) authorize the City Manager, Assistant City Manager and the Chief Financial Officer as officers with authority to execute necessary documents and agreements to carry out the trust services on behalf of the City including, but not limited to the Adoption Agreement and Trust Administrative Services Agreement; and 3) approve an initial deposit of \$10,000,000 from the General Fund reserves assigned for fiscal stability, and \$4,400,000 from Santa Rosa Water enterprise fund reserves to the Section 115 Trust for the purpose of pre-funding pension obligations.

Sponsors:	Finance
Indexes:	Not a Project
Code sections:	15061(b)(3) - General Rule Exemption, 15378 - Not a Project
Attachments:	1. Staff Report, 2. Attachment 1 - Proposal For Trust Admin Services, 3. Resolution, 4. Exhibit A - Adoption Agreement, 5. Presentation

Date	Ver.	Action By	Action	Result
5/10/2022	1	City Council	to waive reading of the text and adopt	Pass