

May 29, 2007

Honorable Mayor and Members of
the Hermosa Beach City Council

City Council Meeting of
June 12, 2007

**ADOPTION OF RESOLUTION AUTHORIZING PARTICIPATION IN THE PUBLIC AGENCY
RETIREMENT SERVICES (PARS) POST-RETIREMENT HEALTH CARE PLAN TRUST**

RECOMMENDATION:

It is recommended that the City Council:

Adopt the Resolution authorizing participation in the PARS Post-Retirement Health Care Plan Trust to be administered by Public Agency Retirement Services (PARS) and Union Bank of California;

BACKGROUND:

In 2004 the Government Accounting Standards Board (GASB) issued Statement No. 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pension*, otherwise known as "GASB 45". GASB 45 requires public agencies, including the City, to report costs and obligations for post-employment healthcare and other post-employment benefits (OPEB) much like the current accounting requirement to report pension obligations. The philosophy behind the rule is that the costs of OPEB should be recognized as a current cost during the working years of an employee rather than after the employee retires. GASB 45 requires that public agencies identify and disclose OPEB as an expense and liability on the financial statements for the first time beginning 07/01/09 for our size government.

The City Council elected in 2003-04 to begin making the annual required contribution (ARC) for these benefits based on an actuarial study. The ARC has been budgeted and funds deposited to our OPEB Fund each fiscal year thereafter. The fund is projected to have a balance of \$1.4 million by 6/30/07.

ANALYSIS:

As presented in the 2007-08 Preliminary Budget Message and mentioned at the Budget Workshop on May 24, 2007, the budget was prepared based on the assumption that funds would be placed in a trust with a third party. The trust legally sets aside amounts contributed solely for the payment of future retiree healthcare premiums. Once set aside, the money cannot be diverted to other purposes, nor is it subject to claims by creditors of the City. It can only be used to pay retiree healthcare premiums. Another feature of an irrevocable trust is that the funds being held can be managed for investment purposes to achieve a higher investment return. As a result, our actuary was able to assume a 7% return rather than the 4.5% that would be assumed if the funds are not in trust. Doing so saves \$113,000 in our annual required contribution. Taking into account the additional \$1.4 million that the city has already set aside saves another \$137,000. As indicated in the budget message, those amounts have already been factored into the budget.

Many cities are just starting to deal with the financial issues created by GASB 45 with the legal implementation deadlines still some time away. While various public and private entities are looking for ways to help cities with the problem, most strategies are still somewhere in the developmental stage. At this point, staff has talked to several firms trying to help local governments by creating multi-employer irrevocable trusts. The one that appears best suited to the City's needs is a program offered by Public Agency Retirement Services (PARS). PARS is a long time provider of alternative retirement plans and now has established a multi-employer irrevocable trust in compliance with the

requirements of Section 115 of the Internal Revenue Code. The design of the trust was done in conjunction with O'Melveny & Myers, one of the nation's largest and most prestigious law firms. PARS is currently in the process of obtaining a private letter ruling from the Internal Revenue Service that provides assurance of the trust's legality and protects participants from adverse tax consequences. A similar Private Letter Ruling for California School Districts, which is based on the same concept as this program, has already been obtained by PARS and it is anticipated that a ruling on this program will be received shortly. . While it is a multi-employer trust, each employer's contributions benefit only its own employees. There is no sharing of either liability or investment earnings, and separate employer accounts are maintained.

PARS serves as the administrator for the trust. As such, its duties include: 1) establishing the master trust and preparing plan documents; 2) monitoring the receipt of contributions; 3) processing benefit payments; 4) preparing monthly activity reports; 5) coordinating actuarial studies; 6) responding to auditor requests; and 7) keeping the City informed about legal and regulatory requirements. Any contributions made to the program are held and invested by a trustee, which would be Union Bank of California. The trustee's duties include: 1) safeguarding assets for the benefit of retirees; 2) ensuring that investment are in keeping with the City's selected strategy; 3) managing investments; 4) preparing monthly investment reports; and 5) disbursing funds to pay for healthcare premiums.

Union Bank offers a number of different investment strategies depending on the risk tolerance level of the agency. To achieve the 7% return assumed in the actuarial study, a "moderate" risk tolerance strategy would be selected by the City. Actively managed mutual funds are used by Highmark (Union Bank's subsidiary) with strategic ranges for asset allocation of Cash: 0-20%; Fixed Income: 40-60%; Equity: 40-60%. The City Treasurer participated in discussions with PARS about investment strategies and is comfortable with this approach. Union Bank's trust department will monitor all investment activity to insure that it conforms to the strategy.

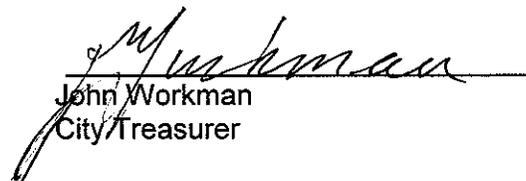
Both PARS and Union Bank charge administrative fees for their services. These fees vary depending on the amount of money being held in trust. For amounts held in trust under \$5 million, the total fee is 0.8% per year. The fees charged decrease as the amounts on deposit increase. Annual administration fees will be paid from plan assets, however fee disclosures will be provided to the City.

In order to participate in the PARS irrevocable trust, the City Council must adopt the attached resolution approving the program. Copies of the following draft plan documents are on file in the Finance Department and are available for review: Master Plan Document; Trust Agreement; Adoption Agreement; Agreement for Administrative Services and Investment Services Exhibit. If approved, the City is committing to participate in the program for a period of three years. After that point, participation is extended on a year-to-year basis, but may be terminated by written notice provided ninety (90) days or more before the end of any term.

Respectfully submitted,



Viki Copeland
Finance Director



John Workman
City Treasurer



Michael Earl
Personnel Director

Concur:



Stephen Burrell
City Manager

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RESOLUTION NO. 07-

**A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF HERMOSA BEACH,
CALIFORNIA,**

WHEREAS it is determined to be in the best interest of the City of Hermosa Beach (the "City") to participate in the PARS Post-Retirement Health Care Plan Trust (the "Program") to fund post-employment benefits for its employees as specified in the City's policies and/or applicable collective bargaining agreements; and

WHEREAS, the City is eligible to participate in the Program, a tax-exempt trust and plan performing an essential governmental function within the meaning of Section 115 of the Internal Revenue Code, as amended, and the Regulations issued thereunder, and is a tax-exempt trust under the provisions of the relevant statutory provisions of the State of California.

**NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF HERMOSA
BEACH, CALIFORNIA, DOES HEREBY RESOLVE AS FOLLOWS:**

SECTION 1. The City Council hereby adopts the PARS Post-Retirement Health Care Plan Trust, including the PARS Post-Retirement Health Care Plan, as part of the City Retirement Program, effective _____, 2007; and

SECTION 2. The City Council hereby appoints the Finance Director, or his/her successor or his/her designee as the City's Plan Administrator for the Program; and

SECTION 3. The City's Plan Administrator is hereby authorized to execute the PARS legal 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

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regulation issued or as may be issued; therefore, authorizing him/her to take whatever additional actions are required to administer the City's PARS plan(s).

PASSED, APPROVED and ADOPTED this _____ day of _____, 2007.

PRESIDENT of the City Council and **MAYOR** of the City of Hermosa Beach, California

ATTEST:

APPROVED AS TO FORM:

City Clerk

City Attorney