

CITY OF SEBASTOPOL CITY COUNCIL
AGENDA ITEM REPORT FOR MEETING OF: May 21, 2024

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To: Honorable Mayor and City Councilmembers
From: Ana Kwong – Administrative Services Director
Subject: Transfer \$1 Million into the Section 115 Trust Pension Stabilization Account

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RECOMMENDATION:

Adopt Resolution authorizing the transfer of remaining balance with City pension reserve (approximately \$1,000,000) to the City of Sebastopol Section 115 Trust Pension Stabilization Trust Account.

EXECUTIVE SUMMARY:

On October 17, 2023, the City Council approved the Resolution No. 6557-2023 for the creation of the OPEB/Pension 115 Trust, managed by Shuster Advisory Group, LLC, and authorized the City Manager to execute necessary agreements. The initial \$1.8 million funding was approved separately by Resolution No. 6556-2023.

The Trust Account was established, and the initial funding was contributed on January 19, 2024. Staff now recommends an additional \$1 million to the Pension Stabilization Trust Account to mitigate future pension liabilities.

BACKGROUND:

The City has proactively managed pension expenses by creating an internal pension reserve. In recent years, discussions about transferring these reserves into a Section 115 Trust culminated in the Council's approval and adoption of the Pension Stabilization Trust on October 17, 2023. The Trust Account received an initial deposit of \$1.8 million on January 19, 2024. On March 19, 2024, the Council approved staff’s recommendation to explore shifting the balance of funds in our pension reserve to the trust. City staff consulted with Bob Leland of Baker Tilly, who concurred with this shift.

ANALYSIS:

Shuster Advisory Group, LLC (Shuster) is a SEC-Registered Investment Advisor with over \$7 billion in assets under management serving the unique needs of governmental agencies and special districts, serving over 80 cities, agencies and public entities. Shuster serves as fiduciary to plan investments and provides investment selection, monitoring, and management. Shuster does not comingle client 115 Trust assets and provides a transparent platform and daily valuation. Shuster provides the trust administrator, consultant, and investment advisor functions; Charles Schwab Trust Bank provides trust custodian services; and Alta Trust Company provides directed trustee services. The Council approved the Shuster 115 Trust program on October 17, 2023.

Assets in a 115 Trust are irrevocably committed for the government function specific in the applicable trust agreement. Additionally, monies held in such trusts can be invested in accordance with the rules governing those trusts allowing for more flexibility in the investment strategy. Setting aside funds in a Section 115 Trust can potentially earn a higher rate of return, with higher risks. Through March 31, 2024, City’s section 115 trust earned a 2.55% return, approximately \$44,000.

COMMUNITY OUTREACH:

This item has been noticed in accordance with the Ralph M. Brown Act and was available for public viewing and review at least 72 hours prior to schedule meeting date.

FISCAL IMPACT:

The transfer to the Pension Stabilization Trust Account total approximately \$1,000,000. The account and the earnings will be used to offset future pension liability expenses of the City.

The administrative fees of 0.28% of the plan's portfolio are deducted from investment earnings and allocated to the trust account based on the investment balance.

OPTIONS:

If the Council does not approve the transfer as recommended by staff, the \$1 million will remain in the discretionary investment account.

ATTACHMENTS:

Resolution

APPROVALS:

Department Head Approval: Approval Date: 5/6/24

CEQA Determination (Planning): Approval Date: 5/6/24

The proposed action is not a project under the California Environmental Quality Act (CEQA)

Administrative Services (Financial) Approval Date: 5/8/24

Costs authorized in City Approved Budget: Yes No N/A

Account Code (f applicable)

City Attorney Approval: Approval Date: 5/6/24

City Manager Approval: Approval Date: 5/14/24

RESOLUTION NUMBER: XXXX-2024

CITY OF SEBASTOPOL

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF SEBASTOPOL AUTHORIZING THE TRANSFER OF APPROXIMATELY \$1 MILLION TO THE PENSION STABILIZATION TRUST ACCOUNT

WHEREAS, the City provides pension benefits to eligible employees and retirees as a participant in the California Public Employees Retirement System (CalPERS) as defined in applicable memorandums of understanding and pay plans; and

WHEREAS, the City Council adopted the Multiple Employer OPEB/Pension 115 Trust, available through Shuster Advisory Group, LLC (Shuster) is a SEC-Registered Investment Advisor (Shuster), for the purpose of pre-funding pension obligations on October 17, 2023; and,

WHEREAS, assets in a Section 115 Trust are irrevocably dedicated to the government function specified in the applicable trust agreement; and,

WHEREAS, monies held in such trusts can be invested in accordance with the rules governing those trusts, which are different from the investment rules for the City’s pooled investments; and,

WHEREAS, the City reserves the right to make contributions, if any, to the Section 115 Trust; and

WHEREAS, setting aside funds in a Section 115 Trust should, over time, allow the City to earn more interest from its reserves than it otherwise would if those funds were left in the General Fund; and,

WHEREAS, the initial deposit of \$1.8 million was made to the Trust on January 19, 2024.

NOW, THEREFORE, BE IT RESOLVED that the City of Sebastopol City Council hereby authorizes the City’s transfer of remaining funds in pension reserve (approximately \$1 million) to the City of Sebastopol Pension Stabilization Trust Account.

The above and foregoing Resolution was duly passed, approved, and adopted at a meeting by the City Council on the 21st day of May, 2024.

I, the undersigned, hereby certify that the foregoing Resolution was duly adopted by the City of Sebastopol City Council by the following vote:

VOTE:

Ayes:

Noes:

Absent:

Abstain:

APPROVED: Diana Gardner Rich, Mayor

ATTEST: Mary Gourley, Assistant City Manager/City Clerk, MMC

APPROVED AS TO FORM: Larry McLaughlin, City Attorney