



CITY OF SEBASTOPOL CITY COUNCIL

AGENDA ITEM REPORT FOR MEETING OF: June 3, 2025

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To: Honorable Mayor and City Councilmembers
From: Ana Kwong – *Administrative Services Director*
Responsible Department: Administrative Services
Subject: Year-to-Date Update for the Section 115 Trust for Pension Stabilization Pension Account and Internal Pension Reserve

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RECOMMENDATION:

It is recommended that the City Council receive year-to-date information for the Section 115 Trust for Pension Stabilization Pension Account and Internal Pension Reserve.

EXECUTIVE SUMMARY:

This report presents year-to-date balances for both the Section 115 accounts and highlights the City’s continued commitment to fiscal responsibility. The Section 115 Trust allows for broader investment options than the General Fund, offering the potential for higher returns while preserving funds exclusively for pension liabilities.

BACKGROUND:

The City of Sebastopol provides retirement benefits to its employees through the California Public Employees Retirement System (CalPERS). CalPERS offers a defined benefit plan, where retirement payouts are based on a formula using years of service, age at retirement, and final average salary (excluding overtime). Benefit formulas vary by employee classification (Miscellaneous or Safety) and by membership tier—either “Classic” (hired before January 1, 2013) or “PEPRA” for those hired after January 1, 2013. The City has implemented pension reforms to reduce costs and protect taxpayer dollars.

DISCUSSION:

The City has proactively managed pension expenses by creating an internal pension reserve. In recent years multiple 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 May 21, 2024, a City Council agenda item proposed transferring the balance of the internal pension reserve to the trust account. However, the item was withdrawn due to ongoing uncertainties regarding city operations. This decision allowed the funds to continue earning a strong return while maintaining flexibility to monitor internal operational stability. The balance of \$1M remains in the internal pension reserve account.

STAFF ANALYSIS:

Assets in a Section 115 Trust are irrevocably committed to the government function specified in the applicable trust agreement, in this case, payment of pension costs. The pension trust is maintained in Fund 105. The City may use trust proceeds to prepay obligations owed to CalPERS, or to reimburse the General Fund for pension costs it has paid to CalPERS.

The long-range forecast assumes the trust will be used to reimburse General Fund pension expense over the period of FY 26-27 through FY 33-34 to help avoid a future deficit in the unassigned balance. During this period pension



costs are expected to slow in growth, peak, and eventually decline in the 2040's as unfunded accrued liability (UAL) costs are paid off under the CalPERS fixed amortization schedules.

Additionally, 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. Investment restrictions that apply to the City (CA Government Code 53601) do not apply to the assets held in an Irrevocable Section 115 Trust, thus allowing for more flexibility in the investment strategy. Setting aside funds in a Section 115 Trust should, over time, allow the City to earn more from its reserves than it otherwise would if those funds were left in the General Fund (which is restricted in investment options due to CA Government Code).

The City has retained Shuster Advisory Group, LLC to manage City investments. The firm is an SEC-registered advisor managing over \$9 billion in public assets, serves as fiduciary and investment advisor. Charles Schwab Trust Bank acts as custodian, and Alta Trust Company serves as directed trustee. As of April 30, 2025, both accounts balance as follows:

		115 Trust	Internal Pension Reserve	Total
Deposit	1/18/2024	1,800,000		1,800,000
Interest Earned	3/31/2024	43,991		43,991
Deposit	5/3/2024		1,000,000	1,000,000
Interest Earned	6/30/2024	17,564	6,334	23,899
Total as of June 30, 2024		1,861,555	1,006,334	2,867,889
Interest Earned	9/30/2024	93,899	12,315	106,214
Interest Earned	12/31/2024	(36,722)	13,024	(23,698)
Interest Earned	3/31/2025	33,091	10,029	43,120
Interest Earned	4/30/2025	11,325	3,394	14,719
Total as of April 30, 2025		1,963,148	1,045,096	3,008,245

To provide historical context, the table below outlines total employer contributions to CalPERS for both the Miscellaneous and Safety Plans over the past five fiscal years. During this period, the normal cost for the Miscellaneous Plan has increased by 30%, while the Safety Plan has seen a 12% increase. Additionally, the Unfunded Accrued Liability (UAL) for both plans has grown by approximately 5%.

For comparison, General Fund revenues have increased by an average of 6.5% from FY 2019–20 through FY 2023–24. However, projected revenue growth is expected to slow to an average of 3.5% annually moving forward. While a portion of the Miscellaneous Plan's pension contributions is funded by sources outside the General Fund, it is anticipated that the General Fund will be responsible for approximately 61% of the annual UAL payments.



Annual Payments	2019-20	2020-21	2021-22	2022-23	2023-24	5 Year Increase	
UAL Miscellaneous Plan	445,836	500,722	574,389	493,746	466,912	21,076	5%
UAL Safety Plan	556,530	615,445	694,446	770,009	585,247	28,717	5%
UAL Total	1,002,366	1,116,167	1,268,835	1,263,755	1,052,159	49,793	5%
Normal Cost Miscellaneous Plan	258,726	283,755	271,492	263,719	337,526	78,800	30%
Normal Cost Safety Plan	270,641	287,668	288,345	236,791	304,105	33,465	12%
Normal Cost Total	529,366	571,423	559,836	500,510	641,631	112,265	21%
TOTAL	1,531,732	1,687,590	1,828,671	1,764,265	1,693,790	162,058	11%

Given these data, establishing a 115 trust pension and internal pension reserve is a prudent step toward pre-funding future pension obligations. This proactive approach will help the City manage potential rate increases and maintain long-term fiscal sustainability. It also reflects the City's ongoing commitment to being a responsible and accountable oversight of taxpayer dollars.

CITY COUNCIL GOALS/PRIORITIES/ AND OR GENERAL PLAN CONSISTENCY:

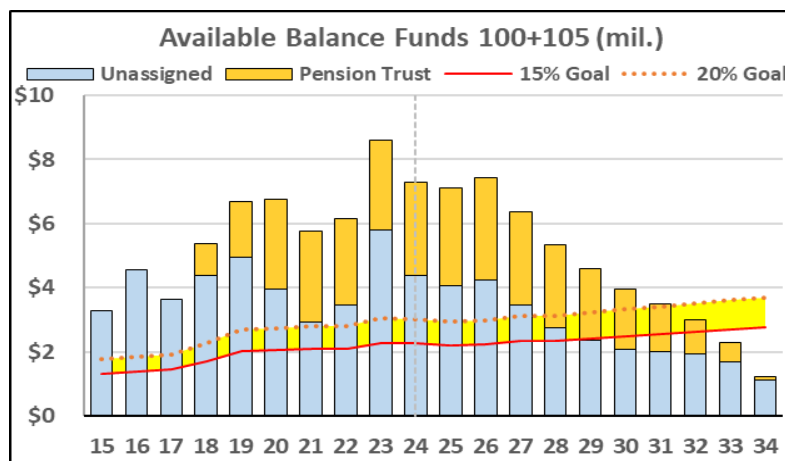
This agenda item represents the City Council goals/priorities as follows:

Goal 5: Achieving Greater Fiscal Resilience and Long Term Fiscal Sustainability

This agenda item represents the City Council General Plan Consistency (if applicable): Not Applicable

FISCAL IMPACT:

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. The current long-range forecast projects the following levels of General Fund (100) and Pension Trust (105) balance. It is assumed that the pension trust will be used to reimburse General Fund pension expense as a means of helping bolster unassigned balance in the coming years. (As the pension trust balance declines, the unassigned balance is augmented by that amount.) This rate of drawdown can be adjusted as appropriate depending on the actual rate of unassigned balance decline.





The Pension Trust is invested conservatively, with a current allocation of 20% in equity and 80% in fixed income.

- Equity refers to investments in stocks—these represent ownership in companies. They tend to offer higher potential returns but also come with more risk and price fluctuations.
- Fixed income refers to investments like bonds or savings instruments that pay a steady interest over time. These are generally more stable and predictable, making them a safer choice for preserving capital.

This 20/80 split means the majority of the trust is in lower-risk, income-generating investments, while a smaller portion is in stocks to allow for some growth.

The one-year return since the inception of the Pension Trust (January 19, 2024 to January 29, 2025) is 7.04%, outperforming the benchmark return of 5.84% over the same period. As of May 18, 2025, the inception-to-date return stands at 7.45%, compared to a benchmark return of 6.31%.

At the time of establishing the Trust, City staff—working in consultation with investment professionals—intentionally adopted a conservative investment strategy, allocating 20% to equities and 80% to fixed income. This cautious approach was taken in recognition of the City's status as a small agency, where preserving capital and ensuring the safety of public funds is a top priority. In contrast, the CalPERS pension plan follows a more aggressive 70/30 equity-to-fixed income allocation.

Now that the Trust has been active for over a year and has demonstrated strong performance, staff will reassess the current asset allocation. The goal is to determine whether increasing equity exposure would better align with the long-term objectives of the Trust, while still maintaining an appropriate level of risk for the City's financial position.

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. The City has also used social media to promote and advertise the City Council Meeting Agenda Items.

As of the writing of this agenda item report, the City has not received any public comment. If staff receives public comment from interested parties following the publication and distribution of this agenda item report, such comments will be provided to the City Council as supplemental materials before or at the meeting and will be posted to the city website.

RESTATED RECOMMENDATION(S):

That the City Council receive year-to-date information for the Section 115 Trust for Pension Stabilization Pension Account and Internal Pension Reserve.

OPTIONS:

The City Council may consider the following options during the upcoming FY 25 26 Budget Hearing:

1. Transfer the remaining discretionary balance into the Section 115 Trust.
2. Retain the remaining balance in its current allocation.

ATTACHMENTS:

Investment Report



APPROVALS:

Department Head Approval: Approval Date: 5/19/25

CEQA Determination (Planning): Approval Date: N/A

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

Administrative Services (Financial) Approval Date: 5/19/25

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

Account Code (if applicable) N/A

City Attorney Approval: Approval Date: 5/23/25

City Manager Approval: Approval Date: 5/25/25



115 Trust Summary

1 Year: 1/19/2024 to 1/19/2025

Calendar YTD: 1/1/2025 to 5/18/2025

Account Details - 1 Year

Account Name	Mgmt. Style	1/19/2024 Value	1/19/2025 Value	Net Investment	Period Return %	3 Months %	YTD %	1 Year %	3 Year %	Inception % 1/19/2024
City of Sebastopol	-	1,800,000.00	1,926,771.73	1,798,924.50	7.04	-0.90	0.42	6.98	N/A	7.04
City of Sebastopol Pension Stabilization	Gov 20/80	1,800,000.00	1,926,771.73	1,798,924.50	7.04	-0.90	0.42	6.98	N/A	7.04
20% Equity 80% Taxable Bond					5.84	-1.44	0.33	5.64	N/A	5.84

Account Details - Calendar YTD

Account Name	Mgmt. Style	1/1/2025 Value	5/18/2025 Value	Net Investment	Period Return %	3 Months %	YTD %	1 Year %	3 Year %	Inception % 1/19/2024
City of Sebastopol	-	1,914,877.86	1,980,262.68	-383.6	3.23	1.13	3.23	7.14	N/A	7.45
City of Sebastopol Pension Stabilization	Gov 20/80	1,914,877.86	1,980,262.68	-383.6	3.23	1.13	3.23	7.14	N/A	7.45
20% Equity 80% Taxable Bond					2.83	0.95	2.83	5.84	N/A	6.31



CalPERS Defined Benefit Return Comparison

Returns as of 6/30/24

CalPERS 1-Year*	9.30%
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Shuster Models	YTD Returns	Rolling 1-Year Returns	Rolling 1-Year Benchmark
20/80%	2.77%	7.26%	5.54%
30/70%	4.07%	9.49%	6.78%
40/60%	4.95%	10.81%	8.13%
50/50%	6.11%	12.06%	9.51%
60/40%	7.20%	13.89%	10.90%
70/30%	7.85%	15.23%	12.47%
80/20%	8.87%	16.33%	13.82%

Note: CalPERS 1-year return as published by CalPERS. Shuster Model returns are composite returns generated by Orion Advisor Solutions and is not guaranteed by Shuster. Past performance is not a guarantee of future results.

* Asset Allocation: Public Equity: 42%, Public Debt: 25%, Private Equity: 13%, Private Debt: 5%, Real Assets: 15%