

MEMO

To: TOWN COUNCIL

From: Joanna Gutierrez, Town Clerk 

Subject: Additional Agenda Material regarding Agenda Item 7(h)
May 3, 2011 Council Meeting


Date: April 28, 2011

Attached is the staff report, resolution, and supporting information
(comparison chart, participation agreement and investment policy) for
Agenda Item 7(h) for the May 3, 2011 Council Meeting.

jmg/attachment(s)

cc: Chuck Rough
Dwight Moore
Paradise Post
Public View Packet


**TOWN OF PARADISE
COUNCIL AGENDA SUMMARY
Date: May 3, 2011**

ORIGINATED BY: Gina S. Will, Finance Director/Town Treasurer  **AGENDA NO 7 (h)**

REVIEWED BY: Charles L. Rough, Jr., Town Manager 

SUBJECT: Adopt Resolution No. 11- __ establishing a Retiree Medical Post Employment Benefits, GASB 45 Trust with Self-Insured Schools of California (SISC)

LEGAL REVIEW: ☒ Yes ☐ No ☐ N/A

Dwight L. Moore, Town Attorney 

RECOMMENDATION:

1. Adopt Resolution 11- __ of the Town Council of the Town of Paradise Authorizing Participation in the SISC GASB 45 Trust; or
2. Direct staff to consider other options.

BACKGROUND:

The Governmental Accounting Standards Board (GASB) has introduced GASB 45 which requires government employers to measure and report the liabilities associated with other (than pension) post-employment benefits (OPEB) in their financial statements. GASB 45 was created to address the growing concern over the potential magnitude of government employer obligations for post-employment benefits.

On March 4, 2011 the Town of Paradise received the actuary study indicating that the total present value of all future benefits as of July 1, 2010 is \$45,810,590. Further, the actuary study indicated that the Annual Required Contribution (ARC) is \$3,571,180 for the 2009/10 fiscal year. As required by GASB 45, this was disclosed and included in the Town's 2009/10 financial statements resulting in a serious decrease of the Town's governmental fund's net assets.

Without taking immediate action, this obligation has immediate adverse financial consequences for the Town by impacting the Town's overall credit worthiness and ability to borrow money at favorable rates. Also understanding how important it is to reduce this obligation to one that is sustainable for the Town, the Town has already taken steps and will continue to take steps to reduce this obligation as quickly as possible. Following are actions that the Town has taken and will take to reduce the obligation to one that is manageable:

- Implemented retiree health vesting schedule which requires five years of service with the Town and ten years of service with a CalPERS agency to be eligible for 50% of retiree health benefits. The vesting schedule requires a full 20 years of CalPERS service credit to be eligible for 100% of retiree health benefits.

- The recession and resulting decrease in revenues coupled with increasing expenses, has made it necessary for the Town to further reduce its workforce during the 2010/11 fiscal year and beyond to the 2011/12 fiscal year thereby further reducing that long term obligation.
- The Town will be negotiating with employees to continue to provide appropriate health insurance coverage for the employee and their families, but will be asking employees and therefore retirees to pay a larger share of those benefits.
- While GASB 45 does not require an agency to pre-fund the long term liability nor to adopt or create an IRS 115 Trust, there are significant policy reasons why it is prudent to do so. It will begin dedicating resources to pay for future promised benefits and will allow the actuary to assume that the Trust will earn interest and that the amount the Town will need to set aside is thereby less.

DISCUSSION:

There are only four multiple employer trusts available in California, the Town staff thoroughly explored all four different trust options before recommending SISC. A summary of those options is attached for Town Council's review. SISC is recommended because participant fees are low, their investment strategy and expected returns are appropriate, their contribution requirements are flexible, and their personalized service and responsiveness are excellent.

The PARS and Keenan Trusts were also impressive, but are seen as a better alternative in a few years when the Trust has more substantial dollars to invest. Those trusts offer a broader range of investment options, but those options come with a higher cost of administration.

Our actuary was consulted as part of the evaluation process, and he has indicated that he could increase the discount rate used in the calculation of the obligation from 4% to 7% by establishing the Trust and beginning to fund this obligation. This action alone would decrease the Town's unfunded liability obligation by about 23% to about \$35 million which will have a positive impact on fiscal year 2010/11 financial statements and beyond.

FINANCIAL IMPACT:

SISC minimum funding requirement is \$50,000. It is recommended that the Town take \$50,000 from the Town's general fund reserves to begin funding the Trust and begin reducing the obligation. The administrative fee associated with this amount is \$100.00.

TOWN OF PARADISE
RESOLUTION NO. 11-___

A RESOLUTION OF THE TOWN COUNCIL OF THE TOWN OF PARADISE,
CALIFORNIA, AUTHORIZING PARTICIPATION IN THE SISC GASB 45 TRUST

WHEREAS, it is determined to be in the best interest of the Town of Paradise (the "Town") to participate in the SISC GASB 45 TRUST (the "Plan") to pre-fund Other Post-employment Benefits (OPEB) liabilities reported in accordance with the Governmental Accounting Standards Board (GASB) Statement NO. 45, and as specified in the Town policies and/or applicable bargaining agreements; and

WHEREAS, the Self-Insured Schools of California ("SISC"), a Joint Powers Agency created under California Government Code Section 6507, has made such a program available to The Town and its eligible employees a Trust Fund to be known as the SISC GASB 45 TRUST. This Trust Fund is intended to be a tax-exempt governmental trust established under Internal Revenue Code Section 115 and an irrevocable trust under applicable law of the State of California.

NOW, THEREFORE, BE IT RESOLVED BY THE TOWN COUNCIL OF THE TOWN OF PARADISE AS FOLLOWS:

SECTION 1. The Town Council of the Town of Paradise does hereby adopt the SISC GASB 45 TRUST effective May 3, 2011; and

SECTION 2. The Town Council does hereby appoint SISC as Plan Administrator to act on the Town's behalf in all matters involving the Plan and Trust Fund; and

SECTION 3. A Trust Agreement for the SISC GASB 45 TRUST shall be approved and adopted, and the trust established thereunder will be the funding vehicle in which is held all assets of the Plan; and

SECTION 4. The Town Council hereby authorizes the Mayor and Town Manager, or any designee of such officer, to execute the SISC GASB 45 Trust Agreement and Plan Benefits, and the associated Investment Policy in substantially the form on file with the Town Clerk, as applicable, of the Town Council of the Town of Paradise, together with any change therein deemed advisable by the officer signing such agreements and documents; and

SECTION 5. The Town Council hereby appoints the Finance Director/Town Treasurer, or his/her successor or his/her designee, as the Town Administrator for the Plan; and

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SECTION 6. The Town Council hereby authorizes the Town Administrator and all other officers and officials of the Town to implement the Plan and to provide \$50,000 to fund the Trust and to take whatever additional actions are necessary to maintain the Town's participation in the Plan, and to execute such documents and to perform such acts as he/she, in his/her judgment, deems necessary to effectuate the intent of this Resolution, the Plan and trust, and to maintain compliance with relevant regulations issued or as may be issued.

PASSED AND ADOPTED by the Town Council of the Town of Paradise this 3rd day of May, 2011, by the following vote:

AYES:

NOES:

ABSENT:

NOT VOTING:

Approved: _____
Alan White, Mayor

ATTEST:

BY: _____
Joanna Gutierrez, CMC, Town Clerk

APPROVED AS TO LEGAL FORM:

BY: _____
Dwight L. Moore, Town Attorney

COMPARISON OF GASB 45 IRREVOCABLE TRUST OPTIONS

	CERBT (Calif. Employer's Retiree Benefit Trust)	Futuris (Keenan Financial Services)	PARS (Public Agency Retirement Services)	SISC (Kern County JPA)
Fees	10 - 20 basis points - determined at the end of each operating year \$50 - \$100	\$1,950 + 105 basis points \$2,475	25 basis points (\$4,800 minimum) + 35 basis points (less if High Mark funds utilized) \$4,975	20 basis points \$100
Sample Fee assuming \$50,000 contribution				
Asset Allocation				
Equity	64%	51%	53%	60%
Fixed Income	20%	44%	43%	40%
Real Estate Invest Trusts(REITs)	10%	5%	2%	0%
High Yield	6%	0%	0%	0%
Cash	0%	0%	2%	0%
Estimated Return	7.75%	8.0%	8.0%	7.0 - 7.5%
Historical Returns				
Quarter	10.00%	5.03%	5.61%	5.76%
Fiscal Year to Date	23.96%	N/A	12.42%	14.63%
1 Year	19.96%	13.58%	12.42%	11.25%
3 Year	2.75%	3.64%	1.74%	2.09%
Inception to Date	1.14%	7.09% (5 Year)	5.23%	3.61%
Trustee	CalPers Board	Benefit Trust Company	Union Bank	Union Bank
Investment Manager	CalPERS Investment Office	Morgan Stanley Smith Barney	High Mark Capital Management	Wells Fargo Advisors
Reporting Frequency	Quarterly	Quarterly plus on-line access	Monthly	Quarterly
Minimum Funding	\$5,000 per contribution	\$0	\$0	\$50,000 minimum balance \$0 thereafter
Length of Commitment	3 Years	90 Days	90 Days	3 Years

EXHIBIT "A"

THIS PARTICIPATION AGREEMENT, entered into as of the date specified below, is by and among the _____, a public school, college or education agency in the State of California, or a political subdivision or instrumentality thereof, the Self Insured Schools of California ("SISC"), a Joint Powers Agency organized under the laws of the State of California, and Union Bank of California, N.A., a national banking association organized and existing under and by virtue of the laws of the United States (the "Trustee").

By executing this Participation Agreement, the Participating Employer specified below (the "Participating Employer") hereby approves and adopts that certain Trust Agreement dated June 29, 2010, entered into by and between Union Bank of California, N.A., as Trustee, and SISC ("Trust Agreement").

WITNESSETH:

WHEREAS, the Participating Employer seeks to become a party to the SISC GASB 45 Trust.

NOW, THEREFORE, in consideration of the foregoing, the Participating Employer hereby provides the following information and undertakes the following commitments:

ARTICLE I.

STATUS OF PLAN

Section 1.01. Purpose.

In order to carry out the purposes of a plan for compliance with standards promulgated by the Governmental Accounting Standards Board ("GASB") by way of GASB 45, the Participating Employer specified below adopts and approves this Participation Agreement, effective as of the date hereof.

Section 1.02. Plan Administrator.

For purposes of compliance with GASB 45, the Plan Administrator on behalf of the Participating Employer named below shall be SISC.

ARTICLE II.

PARTICIPATING EMPLOYER INFORMATION

Section 2.01. Identification.

The Participating Employer which is a party to this Participation Agreement is the _____ Participating Employer of the State of California located at _____ . Its primary address and telephone number for communication shall be as follows:

Section 2.02. The Participating Employer's tax identification number is _____.

ARTICLE III.

AGREEMENT TO BE BOUND

Section 3.01. Trust Agreement.

By executing this Participation Agreement through its authorized administrator, the Participating Employer hereby approves the Trust Agreement and becomes subject to the terms and conditions thereof. The Participating Employer specifically acknowledges and approves the role of the SISC and the Trustee as set forth in the Trust Agreement and to undertake all other duties and assume all rights and obligations as provided for therein.

ARTICLE IV.

DISTRIBUTIONS FROM TRUST FUND

Section 4.01. Disbursements.

At the direction of the SISC and the Participating Employer, Trustee shall make payments out of the Trust Fund in accordance with the terms of the Trust Agreement.

The Trustee shall be permitted to rely on the written direction of the Participating Employer. Notwithstanding the foregoing, the Trustee may, in its sole discretion, inspect any documentation and/or circumstances surrounding any such distribution.

ARTICLE V.

DEFINITIONS

Section 5.01. Defined Terms.

Defined Terms not otherwise given meanings herein shall have those meanings set forth in the Trust Agreement.

THIS PARTICIPATION AGREEMENT is hereby entered into this _____ day of _____, 20____.

PARTICIPATING EMPLOYER

By: _____

Printed Name: _____

Title: _____

(Authorized Administrator)

SELF INSURED SCHOOLS OF CALIFORNIA

By: _____

Printed Name: _____

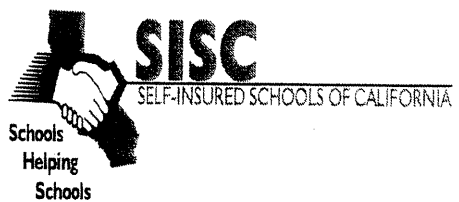
Title: _____

UNION BANK OF CALIFORNIA, N.A., as
Trustee

By: _____

Printed Name: _____

Title: _____



SISC GASB 45 TRUST

Investment Policy

1300 17TH Street – City Centre
P.O. Box 1808
Bakersfield, CA 93303-1808

June 2006

1.0 STATEMENT OF PURPOSE

The SISC GASB 45 TRUST (hereinafter referred to as "the Plan"), administered by Self-Insured Schools of California (SISC), was established to provide a mechanism for pre-funding Other Post-Employment Benefits (OPEB) liabilities reported in accordance with the Governmental Accounting Standards Board (GASB) Statement No. 45. The Trust Fund established under this Plan and the assets thereunder will not be used for, or diverted to, purposes other than the exclusive benefit of Participants. SISC is a Joint Powers Agency (JPA), created under California Government Code Section 6507.

2.0 STATEMENT OF RESPONSIBILITIES

Fiduciaries are ultimately responsible for the Plan, the appropriateness of its investment policy, and execution. They may include the Board of Trustees, Administrative Committee, or Investment Policy Committee. They also include the Investment Managers with responsibility for day-to-day investment management of plan assets, including specific security selection and the timing of purchases and sales; the custodian, with responsibility for safekeeping securities, collections and disbursements and periodic accounting statements; and the Investment Consultant with responsibility for assisting the plan sponsor in developing investment policy and objectives for monitoring performance of the plan and its investment managers.

Investment law imposes the role of trustee on California's local government agencies or persons authorized to make investment decisions for them, in effect making them a fiduciary subject to the prudent investor standard. This standard states that the fiduciary shall act with care, skill, prudence, and diligence, under the circumstances then prevailing, that a prudent person, acting in a like capacity and familiar with those matters, would use in the conduct of funds of a like character and with like aims to safeguard the principal and to maintain the liquidity needs of the agency.

3.0 INVESTMENT OBJECTIVES

The primary objectives of the fund are as follows:

- Long-term growth of capital: The asset value of the fund, exclusive of contributions or withdrawals, should grow in the long run and earn, through a combination of investment income and capital appreciation, a rate of return in excess of a balanced market index while incurring less risk than such an index. It is recognized that short-term fluctuations in the capital markets may result in the loss of capital on occasion (i.e., negative rates of return).
- Preservation of purchasing power: Asset growth, exclusive of contributions and withdrawals, should exceed the rate of inflation in order to preserve purchasing power of fund assets.
- Stability of returns: While some risk is warranted in pursuing long term growth of capital, consistent annual return with low volatility in investment performance is very desirable.
- Liquidity: The Plan's investment portfolio will remain sufficiently liquid to enable the Plan to meet payment of OPEB liabilities and administrative expenses.

4.0 INVESTMENT GOALS

To meet or exceed the rate of return of a balanced market index comprised of the S&P 500 stock index, Lehman Government/Corporate bond index, and U.S. Treasury Bills in similar proportion to the asset allocation of the Fund.

5.0 INVESTMENT PRINCIPLES

Investments are to be made consistent with the safeguards and diversity, to which a prudent investor would adhere, i.e., exercising judgment and care under the circumstances prevailing, which a person of ordinary prudence would employ in the management of their own affairs, not in regard to speculation, but to the permanent disposition of their funds, considering both income and safety of capital.

- Liquidity: The Trustee and Plan Administrator will monitor cash flow on a regular basis, and sufficient liquidity shall be maintained to fund eligible retiree cost outflows.
- Volatility: Consistent with the desire for adequate diversification, Investment Policy for the Plan is based on the assumption that the volatility of the portfolio will be similar to that of the market. Consequently, it is expected that the volatility of the total portfolio, in aggregate, will be reasonably close to the volatility

of a balanced market index weighted to match the actual asset mix of the plan. It is expected the plan will maintain approximately a 60/40 balance on a percentage basis of equities to fixed income. It is also understood that from time to time, this will fluctuate in either direction and can be rebalanced due to market conditions.

6.0 DELEGATION OF AUTHORITY

The Plan administrator (SISC) may delegate the management of the Trust Fund to the Trustee. The Trustee is authorized to exercise all powers conferred upon trustees by law which it may deem necessary or proper for management and protection of the Trust Fund. To the extent that the Trustee exercises authority over the management and investment of Trust Fund assets, it shall hold, invest and reinvest Trust Fund assets, together with the income, in accordance with directions of the Plan Administrator and guidelines established under the Plan, including any written investment policy.

Allocation of assets shall be determined by the Investment Manager/Broker of Record and approved by the Plan Administrator. The SISC Finance Department shall monitor and review all investments for consistency and compliance with this investment policy.

This policy is intended as a guideline by which funds are invested, however, the SISC GASB 45 TRUST Agreement and Plan of Benefits shall take precedence in governing the operation of the plan.

7.0 AUTHORIZED FINANCIAL INSTITUTIONS

Investment services may be provided only by institutions authorized by SISC. Criteria used to select a Financial Institution shall be credit worthiness and verification of authorization to provide investment services in California. All Financial Institutions must supply SISC with: 1) Annual Audited Financial Statements; 2) Proof of National Association of Security Dealers Certification; 3) Proof of California Registration; and 4) Verification of having read the SISC GASB 45 TRUST Investment Policy and agreement to comply with said Policy.

The authorized Financial Institution will be required to:

- Execute trades and all financial transactions at the direction of the Plan Administrator
- Provide asset allocation recommendations and models, and perform those allocations with the approval of the Plan Administrator
- Communicate with the Plan Administrator on a timely basis, and hard copy Plan Administrator on all financial transactions
- Notify Plan Administrator in a timely manner of any meaningful changes in the Trust portfolio
- Follow and execute financial transactions in accordance with the SISC GASB 45 Investment Policy

Where applicable, the Financial Institution will facilitate a competitive pricing approach when purchasing securities, and will adhere to applicable Government Code specifications and stay abreast of Government Code revisions and advise the client in a timely fashion of changes that may affect the investment policy or portfolio assets.

8.0 DIVERSIFICATION AND SUITABLE INVESTMENTS

Diversification of the fund's assets plays an important role in increasing the value of investments and protecting against market declines. The portfolio should be well diversified to avoid undue exposure to any single economic sector, industry group or individual fund, or market segment.

By actively investing in suitable retirement trust funds with a proven performance record, the investment portfolio will focus on growth and income through a balanced type account of equities and fixed income, while reducing the effects of interest rate and market volatility. Assets shall only be invested in funds approved by the SISC Board and Administration. Funds may also be invested with California Local Agency Investment Fund and the County Treasury.

9.0 INTERNAL CONTROLS

Internal controls shall be utilized to maintain efficiency and prevent fraud. Controls may include, but are not limited to, separation of functions, checks and balances, screening of employees and consultants, and training. The SISC Finance Department shall establish an annual process of independent review by an external auditor. This review will provide internal control by assuring compliance with policies and procedures.

10.0 INVESTMENT PERFORMANCE REVIEW AND EVALUATION

Performance results will be measured on a quarterly and annual basis. Total fund performance will be measured against a balanced index composed of commonly accepted benchmarks weighted to match the long-term asset allocation policy of the Plan. The investment performance of the total portfolio and equity and fixed income segments (both in terms of return and risk) will be measured against commonly accepted benchmarks. Total fund performance will be compared to a representative universe of professionally managed funds with the percentage of equity, fixed income, and cash equivalents to be indicative of the long term asset allocation policy of the Plan.

11.0 REPORTING AND COMMUNICATIONS

The SISC Finance Department is charged with the responsibility of including a market report on investment activity and returns in the Plan's financial statements.

Investment Manager communications will include:

- Quarterly portfolio valuations and transaction listings
- Semi-annual meeting with the SISC Finance Department
- A review of past investment performance; evaluation of the current investment outlook; and discussion of investment strategies
- A review of any significant changes in management, research, personnel, or ownership within the investment firm

12.0 INVESTMENT POLICY ADOPTION

The Administration and the Chief Financial Officer of SISC shall implement the SISC GASB 45 TRUST Investment Policy. The Policy will be reviewed annually, and the SISC III Board of Directors must approve any modifications made thereto.

Adopted: June 2006

Reviewed: August 18, 2010