



City of San Leandro

Meeting Date: June 7, 2021

Staff Report

File Number: 21-359 **Agenda Section:** ACTION ITEMS

Agenda Number: 10.B.

TO: City Council

FROM: Fran Robustelli
City Manager

BY: Susan Hsieh
Finance Director

FINANCE REVIEW: Not Applicable

TITLE: Staff Report for a City of San Leandro City Council Resolution Approving and Authorizing the City Manager to Execute all Documents and Take All Actions to Establish a Section 115 Pension Trust with the Public Agency Retirement Services (PARS)

SUMMARY AND RECOMMENDATION

Staff recommends that the City Council approve and authorize the City Manager to Execute All Documents and Take All Actions to Establish a Section 115 Pension Trust with PARS. Staff also recommends that the City Council approve the Investment Guidelines Document selecting an active Moderate Investment Strategy for the plan, authorize staff to transfer \$750,000 to PARS to set up the trust account, and appropriate the \$750,000 annual OPEB (Other Post-Employment Benefits) allocation from the Fiscal Year 2020-2021 budget to the Fiscal Year 2021-2022 budget.

Two resolutions are attached to this staff report.

BACKGROUND

At the April 12, 2021 Council meeting, the City Council directed staff to establish a Section 115 Pension Trust (Trust) to buy down the City's unfunded pension liability and stabilize costs in the long run. The Council directed staff to work with the Finance Committee (Committee) to finalize the selection of a service provider and develop an investment policy for the Trust.

Following the April meeting, PARS submitted a formal proposal to the City. For discussion purposes, PARS' investment manager HighMark provided a draft Investment Guidelines Document to the City Council Finance Committee with a Moderately Conservative strategy.

To recap, a Section 115 Trust offers the following benefits:

- Generate investment income to pay for future pension contributions;
- Flexibility to tailor the investment strategy to meet the City's objectives and risk tolerance;
- Potential to improve the City's bond rating; and

- Flexibility to access Trust assets to offset unexpected increases in pension costs or decreases in revenues due to economic downturns.

Establishing a Pension Trust will enhance investment returns in the long run and provide the City flexibility to withdraw funds from the Trust as needed. California Government Code Section 53216 allows assets in a Pension Trust to be invested in any form or type of investment deemed prudent. Investment restrictions that apply to the City's pooled investments do not apply to the Pension Trust. For example, funds in a Pension Trust can be invested in both equity (stock and shares issued by a company) and fixed income (investments that pay investors fixed interest or dividend payments); assets can be invested in a time horizon that is longer than five years. The City's pooled investments cannot be invested in equity and are limited to five-year maturity unless otherwise approved by the City Council.

The City established its OPEB Trust with PARS in 2009 and the City selected a Moderately Conservative investment strategy for the portfolio. Today the OPEB Trust has accumulated over \$21 million in assets and the City's retiree medical plan is 81% funded.

DISCUSSION

Investment Guidelines

Overview and Key Investment Elements

As stated in the Investment Guidelines Document, the purpose of the document is to:

- Facilitate the process of ongoing communication between the City, PARS and HighMark;
- Confirm the Plan's investment goals and objectives and management policies applicable to the investment portfolio that will be identified by the City;
- Provide a framework to construct a well-diversified asset mix that can potentially be expected to meet the account's short- and long-term needs that is consistent with the account's investment objectives, liquidity considerations and risk tolerance;
- Identify any unique considerations that may restrict or limit the investment discretion of its designated investment managers; and
- Help maintain a long-term perspective when market volatility is caused by short-term market movements.

The following key elements should be considered when selecting an investment strategy for the Trust.

- Investment Time Horizon
- Anticipated Cash Flow
- Investment Objective
- Risk Tolerance

Staff recommends that the City Council's goal should be to accumulate funds in the Plan to cover increases in pension costs and relieve pressure on the General Fund in future years. The objective will be to maximize investment return while ensuring cash is available to cover pension contributions. Withdrawals from the Trust are not expected in the next seven to eight years.

Investment Strategies

The PARS Section 115 Trust Program offers several investment strategies as presented in

Attachment 2 - PARS Investment Strategies and Percentage Allocations. Some investment strategies focus on capital appreciation. These strategies tend to yield higher returns over time with more investments in equity. The more conservative strategies invest more heavily in fixed income, and the yields tend to be lower. Each investment strategy also invests a portion of the assets in cash. It should be noted that the Moderately Conservative strategy is the most commonly selected strategy by other Program participants, followed by the Moderate strategy. The investment returns for these two strategies are targeted at 5.14% and 5.89% as presented in Attachment 3 - PARS Investment Objectives. The investment horizon for the Moderately Conservative strategy is five to seven years, and the investment horizon for the Moderate strategy is six to eight years. Both strategies would meet the City's investment objectives.

The City's OPEB Trust with PARS utilizes the Moderately Conservative strategy. It is appropriate for the City to utilize an active Moderate strategy for the Pension Trust since the City already has over \$21 million in a more conservative portfolio. The City also has the option to change the investment strategy as needed. The investment strategy will be evaluated on an annual basis and quarterly investment reports will be provided to the Finance Committee for review.

The asset allocation ranges for the Moderate strategy are presented below. Staff refers City Council to the Investment Guidelines Document for detailed information on investment categories and performance benchmarks.

Strategic Asset Allocation Ranges

Cash	Fixed Income	Equity
0-20%	40%-60%	40%-60%
Policy: 5%	Policy: 45%	Policy: 50%

Fees

Fees are based on a tiered pricing structure. For assets over \$15 million, the fee would be 0.30% for both administration and investment management. Please note that other management fees may also be charged by investment managers, which will be deducted directly from investment returns consistent with industry standard. The City currently has more than \$21 million in assets in the OPEB Trust, and the annual fee is approximately \$93,000. PARS allows agencies to combine their OPEB and Pension Trust assets together to benefit from a lower fee. Contributions into the Pension Trust will be charged at 0.30%. With a \$750,000 initial contribution, the annual fee is estimated at \$2,300. The fee will increase as more assets/contributions are accumulated in the account.

Review by Finance Committee

The Committee met on May 4, 2021 to review the PARS proposal and discuss the investment strategies. The Committee had a split recommendation over the Moderate strategy and the Moderately Conservative strategy. Staff recommends that the City Council adopt an **active Moderate strategy** due to the reasons stated above.

Next Steps

Staff will work with PARS to execute the service agreement and other relevant documents to establish the Pension Trust. It will take about a month to set up the trust account.

Current Agency Policies

Place San Leandro on a Firm Foundation for Long Term Fiscal Sustainability.

Previous Actions

On September 21, 2015, the City Council affirmed the goals of the PULL Plan.

Fiscal Impacts

The \$750,000 annual OPEB contribution will be used to establish the Pension Trust. The annual fee is estimated at \$2,300.

Budget Authority

The \$750,000 annual OPEB contribution is included in the Fiscal Year 2020-2021 budget. Staff recommends that the Council reappropriate the funds to the Fiscal Year 2021-2022 budget. Based on the projected timeline, the Pension Trust will be established in July 2021.

ATTACHMENT(S)

Resolution #1

- Attachment 1 - Agreement for Administrative Services

Resolution #2

- Attachment 2 - PARS Investment Strategies and Percentage Allocations
- Attachment 3 - PARS Investment Objectives
- Attachment 4 - Draft Investment Guidelines Document - Moderate Strategy

PREPARED BY: Susan Hsieh, Finance Director



Establishment of a Section 115 Pension Trust

CITY COUNCIL MEETING

JUNE 7, 2021

Background

April 2021

- The City Council directed staff to establish a Section 115 Pension Trust

April 2021

- PARS and HighMark submitted a formal proposal and the Investment Guidelines Document to the City

May 2021

- The Finance Committee reviewed the proposal and discussed the investment strategies

Section 115 Pension Trust

- Generate investment income to pay for future pension contributions
- Flexibility to tailor the investment strategy to meet the City's objectives and risk tolerance
- Potential to improve the City's bond rating
- Flexibility to access trust assets to offset unexpected increases in pension costs or decreases in revenues due to economic downturns

Finance Committee Recommendations

- Stabilize costs and maximize investment income
- Discussed the Moderately Conservative and Moderate investment strategies - was divided in the recommendations

Strategy	Targeted Investment Return	Equity Allocation Range	Participation Percentage
Moderately Conservative	5.14%	20%-40%	35% *
Moderate	5.89%	40%-60%	31%

** This is the most commonly selected strategy by participating agencies in the PARS Program, followed by the Moderate strategy.*

Staff Recommendations

- Select an active Moderate strategy due to the following reasons:
 - ✓ \$21M in the City's OPEB Trust is invested in a Moderately Conservative portfolio
 - ✓ It is appropriate to invest a portion of the assets in a Moderate portfolio
 - ✓ The investment strategy will be re-evaluated and changed if necessary

Resolutions

- Authorize the establishment of a Section 115 Pension Trust with PARS
- Approve the Investment Guidelines Document selecting an active Moderate strategy
- Authorize staff to make a \$750K initial contribution to PARS
- Re-appropriate the \$750K OPEB allocation from Fiscal Year 2020-21 to Fiscal Year 2021-22

Next Steps

Agreement
Execution in June

Fund Transfer to
PARS in Early July

Presentation of
Quarterly
Investment
Reports to the
Finance
Committee

Annual Reviews
with PARS and
HighMark



Questions



City of San Leandro

Meeting Date: June 7, 2021

Resolution - Council

File Number: 21-360

Agenda Section: ACTION ITEMS

Agenda Number:

TO: City Council

FROM: Fran Robustelli
City Manager

BY: Susan Hsieh
Finance Director

FINANCE REVIEW: Not Applicable

TITLE: RESOLUTION of the City of San Leandro City Council Approving and Adopting the Public Agencies Post-Employment Benefits Trust Administered by Public Agency Retirement Services (PARS) for Pre-funding Pension Liabilities (Program), Appointing the City Manager as the Plan's Administrator for the Program, and Authorizing the City Manager as the Plan Administrator for the Program to Execute the PARS Agreement and Other Administrative Documents and to Take Other Additional Actions

WHEREAS, the City of San Leandro (the "City") is currently participating in the Public Agencies Post-Retirement Health Care Plan Trust for the pre-funding of its retiree health benefits and other post-employment benefits other than pension benefits ("OPEB"); and

WHEREAS, the City desires to set aside funds for the purpose of pre-funding its CalPERS pension obligation that will be held in trust for the exclusive purpose of making future contributions of the City's required pension contributions and any employer contributions in excess of such required contributions at the discretion of the City; and

WHEREAS, PARS has made available the Public Agencies Post-Employment Benefits Trust (the "Program") for the purpose of pre-funding both pension obligations and/or OPEB obligations as specified in the City's plans, policies and/or applicable collective bargaining agreements; and

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

WHEREAS, the City can manage the pre-funding of its pension and OPEB obligations in a single trust under this Program, thereby gaining administrative and cost efficiencies; and

WHEREAS, the City's adoption and operation of the Program has no effect on any current or former employee's entitlement to post-employment benefits; and

WHEREAS, the terms and conditions of post-employment benefit entitlement, if any, are

governed by contracts separate from and independent of the Program; and

WHEREAS, the City's funding of the Program does not, and is not intended to, create any new vested right to any benefit nor strengthen any existing vested right; and

WHEREAS, the City reserves the right to make contributions, if any, to the Program.

NOW THEREFORE, THE CITY OF SAN LEANDRO CITY COUNCIL RESOLVES THAT:

The City Council hereby approves and adopts the Public Agencies Post-Employment Benefits Trust, effective __June 7____, 2021; and

The City Council hereby appoints the City Manager, or her successor or her designee as the City's Plan Administrator for the Program; and

The City's Plan Administrator is hereby authorized to execute the PARS legal and administrative 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 regulation issued or as may be issued; therefore, authorizing her to take whatever additional actions are required to administer the City's Program; and

The City Council, in accordance with Section 3.3 of the Public Agencies Post-Retirement Health Care Plan Trust adopted and effective May 18, 2009, hereby authorizes the withdrawal from said trust and directs the transfer of assets held in said trust to the OPEB Account established in the name of the City under the Public Agencies Post-Employment Benefits Trust, adopted herewith.

AYES: NOES: ABSENT: ABSTAIN:

STATE OF CALIFORNIA
COUNTY OF ALAMEDA

_____, the Clerk of the City of San Leandro, State of California, hereby certifies that the above foregoing resolution was duly and regularly adopted by said City at a regular meeting thereof held on the _____ and passed by a _____ vote of said Council.

IN WITNESS WHEREOF I have hereunto set my hand and seal this _____, 2021.

City Clerk

AGREEMENT FOR ADMINISTRATIVE SERVICES

This agreement (“Agreement”) is made this ____ day of _____, 2021, between Phase II Systems, a corporation organized and existing under the laws of the State of California, doing business as Public Agency Retirement Services and PARS (hereinafter “PARS”) and the City of San Leandro (“Agency”).

WHEREAS, the Agency has adopted the PARS Public Agencies Post-Employment Benefits Trust for the purpose of pre-funding pension obligations and/or Other Post-Employment Benefits (“OPEB”) obligations (“Plan”) and is desirous of retaining PARS as Trust Administrator to the Trust, to provide administrative services.

NOW THEREFORE, the parties agree:

1. **Services.** PARS will provide the services pertaining to the Plan as described in the exhibit attached hereto as “Exhibit 1A” (“Services”) in a timely manner, subject to the further provisions of this Agreement.
2. **Fees for Services.** PARS will be compensated for performance of the Services as described in the exhibit attached hereto as “Exhibit 1B”.
3. **Payment Terms.** Payment for the Services will be remitted directly from Plan assets unless the Agency chooses to make payment directly to PARS. In the event that the Agency chooses to make payment directly to PARS, it shall be the responsibility of the Agency to remit payment directly to PARS based upon an invoice prepared by PARS and delivered to the Agency.
4. **Fees for Services Beyond Scope.** Fees for services beyond those specified in this Agreement will be billed to the Agency at the rates indicated in the PARS’ standard fee schedule in effect at the time the services are provided and shall be payable as described in Section 3 of this Agreement. Before any such services are performed, PARS will provide the Agency with a detailed description of the services, terms, and applicable rates for such services. Such services, terms, and applicable rates shall be agreed upon in writing and executed by both parties.
5. **Information Furnished to PARS.** PARS will provide the Services contingent upon the Agency providing PARS the information specified in the exhibit attached hereto as “Exhibit 1C” (“Data”). It shall be the responsibility of the Agency to certify the accuracy, content, and completeness of the Data so that PARS may rely on such information without further audit. It shall further be the responsibility of the Agency to deliver the Data to PARS in such a manner that allows for a reasonable amount of time for the Services to be performed. Unless specified in Exhibit 1A, PARS shall be under no duty to question Data received from the Agency, to compute contributions made to the Plan, to determine or inquire whether contributions are adequate to meet and discharge liabilities under the Plan, or to determine or inquire whether contributions made to the Plan are in compliance with the Plan or applicable law. In addition, PARS shall not be liable for nonperformance of Services to the extent such nonperformance is caused by or results from erroneous and/or late delivery of Data from the Agency. In the event that the

Agency fails to provide Data in a complete, accurate and timely manner and pursuant to the specifications in Exhibit 1C, PARS reserves the right, notwithstanding the further provisions of this Agreement, to terminate this Agreement upon no less than ninety (90) days written notice to the Agency.

6. **Records.** Throughout the duration of this Agreement, and for a period of five (5) years after termination of this Agreement, PARS shall provide duly authorized representatives of Agency access to all records and material relating to calculation of PARS' fees under this Agreement. Such access shall include the right to inspect, audit and reproduce such records and material and to verify reports furnished in compliance with the provisions of this Agreement. All information so obtained shall be accorded confidential treatment as provided under applicable law.
7. **Confidentiality.** Without the Agency's consent, PARS shall not disclose any information relating to the Plan except to duly authorized officials of the Agency, subject to applicable law, and to parties retained by PARS to perform specific services within this Agreement. The Agency shall not disclose any information relating to the Plan to individuals not employed by the Agency without the prior written consent of PARS, except as such disclosures may be required by applicable law.
8. **Independent Contractor.** PARS is and at all times hereunder shall be an independent contractor. As such, neither the Agency nor any of its officers, employees or agents shall have the power to control the conduct of PARS, its officers, employees, or agents, except as specifically set forth and provided for herein. PARS shall pay all wages, salaries, and other amounts due its employees in connection with this Agreement and shall be responsible for all reports and obligations respecting them, such as social security, income tax withholding, unemployment compensation, workers' compensation, and similar matters.
9. **Indemnification.** PARS and Agency hereby indemnify each other and hold the other harmless, including their respective officers, directors, and employees, from any claim, loss, demand, liability, or expense, including reasonable attorneys' fees and costs, incurred by the other as a consequence of, to the extent, PARS' or Agency's, as the case may be, negligent acts, errors or omissions with respect to the performance of their respective duties hereunder.
10. **Compliance with Applicable Law.** The Agency shall observe and comply with federal, state, and local laws in effect when this Agreement is executed, or which may come into effect during the term of this Agreement, regarding the administration of the Plan. PARS shall observe and comply with federal, state, and local laws in effect when this Agreement is executed, or which may come into effect during the term of this Agreement, regarding Plan administrative services provided under this Agreement.
11. **Applicable Law.** This Agreement shall be governed by and construed in accordance with the laws of the State of California. In the event any party institutes legal proceedings to enforce or interpret this Agreement, venue and jurisdiction shall be in any state court of competent jurisdiction.

12. **Force Majeure.** When a party's nonperformance hereunder was beyond the control and not due to the fault of the party not performing, a party shall be excused from performing its obligations under this Agreement during the time and to the extent that its performance is prevented by such cause. Such cause shall include, but not be limited to: any incidence of fire, flood, acts of God or unanticipated communicable disease, acts of terrorism or war commandeering of material, products, plants or facilities by the federal, state or local government, a material act or omission by the other party or any law, ordinance, rule, guidance or recommendation by the federal, state or local government, or any agency thereof, which becomes effective after the date of this Agreement that delays or renders impractical either party's performance under the Agreement.
13. **Ownership of Reports and Documents.** The originals of all letters, documents, reports, and data produced for the purposes of this Agreement shall be delivered to and become the property of the Agency. Copies may be made for PARS but shall not be furnished to others without written authorization from Agency.
14. **Designees.** The Plan Administrator of the Agency, or their designee, shall have the authority to act for and exercise any of the rights of the Agency as set forth in this Agreement, subsequent to and in accordance with the written authority granted by the Governing Body of the Agency, a copy of which writing shall be delivered to PARS. Any officer of PARS, or his or her designees, shall have the authority to act for and exercise any of the rights of PARS as set forth in this Agreement.
15. **Notices.** All notices hereunder and communications regarding the interpretation of the terms of this Agreement, or changes thereto, shall be effected by delivery of the notices in person or by depositing the notices in the U.S. mail, registered or certified mail, return receipt requested, postage prepaid and addressed as follows:
- (A) To PARS: PARS; 4350 Von Karman Avenue, Suite 100, Newport Beach, CA 92660; Attention: President
 - (B) To Agency: City of San Leandro; 835 East 14th Street, San Leandro, CA 94577; Attention: City Manager
- Notices shall be deemed given on the date received by the addressee.
16. **Term of Agreement.** This Agreement shall remain in effect for the period beginning June 7, 2021 and ending June 6, 2024 ("Term"). This Agreement may be terminated at any time by giving thirty (30) days written notice to the other party of the intent to terminate. Absent a thirty (30) day written notice to the other party of the intent to terminate, this Agreement will continue unchanged for successive twelve-month periods following the Term.
17. **Amendment.** This Agreement may not be amended orally, but only by a written instrument executed by the parties hereto.
18. **Entire Agreement.** This Agreement, including exhibits, contains the entire understanding of the parties with respect to the subject matter set forth in this Agreement. In the event a conflict arises between the parties with respect to any term, condition or provision of this Agreement, the remaining terms, conditions, and provisions shall remain

in full force and legal effect. No waiver of any term or condition of this Agreement by any party shall be construed by the other as a continuing waiver of such term or condition.

19. **Attorneys Fees.** In the event any action is taken by a party hereto to enforce the terms of this Agreement the prevailing party herein shall be entitled to receive its reasonable attorney's fees.
20. **Counterparts.** This Agreement may be executed in any number of counterparts, and in that event, each counterpart shall be deemed a complete original and be enforceable without reference to any other counterpart.
21. **Headings.** Headings in this Agreement are for convenience only and shall not be used to interpret or construe its provisions.
22. **Effective Date.** This Agreement shall be effective on the date first above written, and also shall be the date the Agreement is executed.

AGENCY:

BY: _____
Frances Robustelli

TITLE: City Manager

DATE: _____

PARS:

BY: _____
Tod Hammeras

TITLE: Chief Financial Officer

DATE: _____

EXHIBIT 1A
SERVICES

PARS will provide the following services for the City of San Leandro Public Agencies Post-Employment Benefits Trust:

1. Plan Installation Services:

- (A) Meeting with appropriate Agency personnel to discuss plan provisions, implementation timelines, actuarial valuation process, funding strategies, benefit communication strategies, data reporting, and submission requirements for contributions/reimbursements/distributions;
- (B) Providing the necessary analysis and advisory services to finalize these elements of the Plan;
- (C) Providing the documentation needed to establish the Plan to be reviewed and approved by Agency legal counsel. Resulting final Plan documentation must be approved by the Agency prior to the commencement of PARS Plan Administration Services outlined in Exhibit 1A, paragraph 2 below.

2. Plan Administration Services:

- (A) Monitoring the receipt of Plan contributions made by the Agency to the trustee of the PARS Public Agencies Post-Employment Benefits Trust (“Trustee”), based upon information received from the Agency and the Trustee;
- (B) Performing periodic accounting of Plan assets, reimbursements/distributions, and investment activity, based upon information received from the Agency and/or Trustee;
- (C) Coordinating the processing of distribution payments pursuant to authorized direction by the Agency, and the provisions of the Plan, and, to the extent possible, based upon Agency-provided Data;
- (D) Coordinating actions with the Trustee as directed by the Plan Administrator within the scope of this Agreement;
- (E) Preparing and submitting a monthly report of Plan activity to the Agency, unless directed by the Agency otherwise;
- (F) Preparing and submitting an annual report of Plan activity to the Agency;
- (G) Facilitating actuarial valuation updates and funding modifications for compliance with the applicable GASB pronouncements and/or statements, if prefunding OPEB obligations;
- (H) Coordinating periodic audits of the Trust;
- (I) Monitoring Plan and Trust compliance with federal and state laws.

3. PARS is not licensed to provide and does not offer tax, accounting, legal, investment or actuarial advice.

EXHIBIT 1B
FEES FOR SERVICES

PARS will be compensated for performance of Services, as described in Exhibit 1A based upon the following schedule:

An annual asset fee shall be paid from Plan assets based on the following schedule:

<u>For Plan Assets from:</u>	<u>Annual Rate:</u>
\$1 to \$10,000,000	0.25%
\$10,000,001 to \$15,000,000	0.20%
\$15,000,001 to \$50,000,000	0.15%
\$50,000,001 and above	0.10%

Annual rates are prorated and paid monthly. The annual asset fee shall be calculated by the following formula [Annual rate divided by 12 (months of the year) multiplied by the Plan asset balance at the end of the month]. Trustee and Investment Management Fees are not included.

EXHIBIT 1C
DATA REQUIREMENTS

PARS will provide the Services under this Agreement contingent upon receiving the following information. Agency is solely responsible for ensuring that all information and documentation provided to PARS is true, correct, and authorized:

1. Executed Legal Documents:
 - (A) Certified Resolution
 - (B) Adoption Agreement to the Public Agencies Post-Employment Benefits Trust
 - (C) Trustee Investment Forms

2. Contribution – completed Contribution Transmittal Form signed by the Plan Administrator (or authorized Designee) which contains the following information:
 - (A) Agency name
 - (B) Contribution amount
 - (C) Contribution date
 - (D) Contribution method (Check, ACH, Wire)

3. Distribution – completed Payment Reimbursement/Distribution Form signed by the Plan Administrator (or authorized Designee) which contains the following information:
 - (A) Agency name
 - (B) Payment reimbursement/distribution amount
 - (C) Applicable statement date
 - (D) Copy of applicable premium, claim, statement, warrant, and/or administrative expense evidencing payment
 - (E) Signed certification of reimbursement/distribution from the Plan Administrator (or authorized Designee)

4. Other information pertinent to the Services as reasonably requested by PARS and Actuarial Provider.



City of San Leandro

Meeting Date: June 7, 2021

Resolution - Council

File Number: 21-361

Agenda Section: ACTION ITEMS

Agenda Number:

TO: City Council

FROM: Fran Robustelli
City Manager

BY: Susan Hsieh
Finance Director

FINANCE REVIEW: Not Applicable

TITLE: RESOLUTION of the City of San Leandro City Council Adopting the Investment Guidelines for the City's Section 115 Pension Trust, Authorizing the Transfer of \$750,000 to PARS to Establish the Pension Trust, and Appropriating the \$750,000 OPEB Allocation in the Self Insurance Fund (Fund 689) from Fiscal Year 2020-2021 to the Fiscal Year 2021-2022 Budget

WHEREAS, the City of San Leandro (the "City") is currently participating in the Public Agencies Post-Retirement Health Care Plan Trust for the pre-funding of its retiree health benefits and other post-employment benefits other than pension benefits ("OPEB"); and

WHEREAS, the City desires to set aside funds for the purpose of pre-funding its CalPERS pension obligation that will be held in trust for the exclusive purpose of making future contributions of the City's required pension contributions and any employer contributions in excess of such required contributions at the discretion of the City; and

WHEREAS, PARS has made available the Public Agencies Post-Employment Benefits Trust (the "Program") for the purpose of pre-funding both pension obligations and/or OPEB obligations as specified in the City's plans, policies and/or applicable collective bargaining agreements; and

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

NOW, THEREFORE, the City of San Leandro City Council RESOLVES as follows:

1. The City Council hereby adopts the Investment Guidelines for the City's Section 115 Pension Trust; and
2. The City Council hereby authorizes the transfer of \$750,000 to PARS to establish the pension trust; and
3. The City Council hereby appropriates the \$750,000 OPEB allocation in the Self Insurance Fund (Fund 689) from Fiscal Year 2020-2021 to the Fiscal Year 2021-2022 Budget.

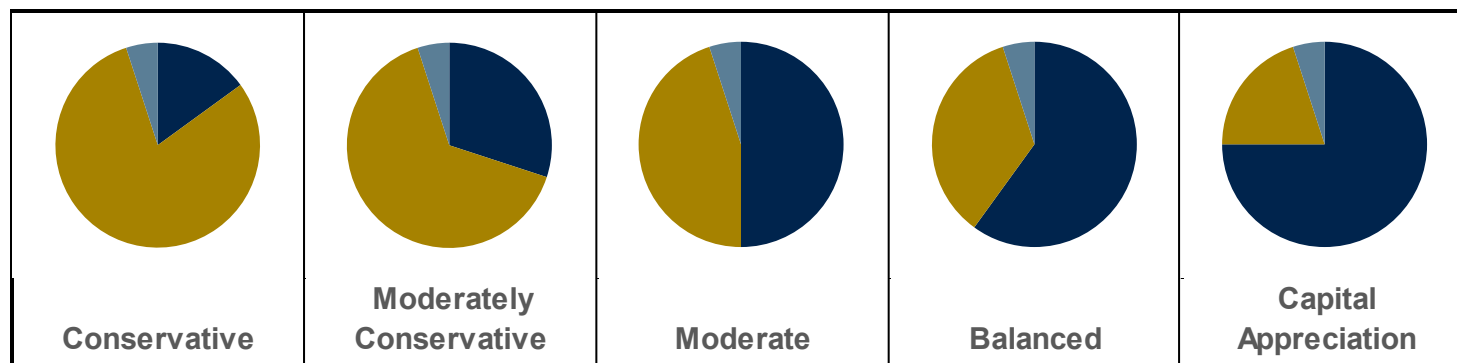
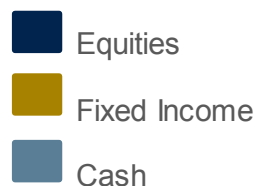
PARS Investment Strategies and Percentage Allocations

Note: About 31% of the agencies in the PARS program selected the Moderate Strategy and about 35% of the agencies selected the Moderately Conservative Strategy.

Strategy	Allocation (%)
Capital Appreciation (65-85% Equity)	5.23%
Balanced (50-70% Equity)	13.07%
Moderate (40-60% Equity)	31.37%
Mod. Conservative (20-40% Equity)	34.64%
Conservative (5-20% Equity)	7.19%
Other (Custom)	8.50%
TOTAL	100.00%

PARS Investment Objectives

As of March 2021



	Conservative	Moderately Conservative	Moderate	Balanced	Capital Appreciation
Equity	15.00%	30.00%	50.00%	60.00%	75.00%
Large Cap Core	7.50%	15.50%	26.50%	32.00%	39.50%
Mid Cap Core	1.50%	3.00%	5.00%	6.00%	7.50%
Small Cap Core	2.50%	4.50%	7.50%	9.00%	10.50%
Real Estate	0.50%	1.00%	1.75%	2.00%	2.00%
International	2.00%	4.00%	6.00%	7.00%	10.25%
Emerging Markets	1.00%	2.00%	3.25%	4.00%	5.25%
Fixed Income	80.00%	65.00%	45.00%	35.00%	20.00%
Short Term Bond	25.75%	14.00%	10.00%	6.75%	3.00%
Intermediate Term Bond	52.25%	49.25%	33.50%	27.00%	16.00%
High Yield	2.00%	1.75%	1.50%	1.25%	1.00%
Cash	5.00%	5.00%	5.00%	5.00%	5.00%
Expected Return	4.45%	5.14%	5.89%	6.22%	6.64%
Expected Standard Deviation	3.43%	5.15%	8.24%	9.92%	12.53%

The above information is for illustrative purposes only and is not intended to provide investment recommendations as to which securities to buy or sell, or when to buy or sell securities. Each Sample Portfolio is a hypothetical portfolio only and does not reflect actual investment decisions or recommendations and does not represent actual trading or actual portfolio performance. An actual client's portfolio construction and performance may vary depending on the client's investment needs, objectives, restrictions, and market conditions. Asset allocation ranges and performance for each investment objective may also vary depending on the prevailing market conditions. Past performance is no indication of future results. For institutional investor use only. Data as of March 2021.

*Expected Returns are based on 30-year returns for various asset classes. Please see disclosure page for additional details on Expected Return and Expected Standard Deviation.

Source: Factset

Disclosures

Each strategy represented as a Sample Portfolio is a hypothetical portfolio only and does not reflect actual investment decisions or recommendations. It is solely for illustrative purposes and is subject to change at any time. It is not intended to represent a specific investment. It does not reflect the liquidity constraints of actual investing or the impact that material economic and market factors may have on an investment adviser's decision-making. Investors cannot invest in the Sample Portfolio and actual investment results may differ materially. An account could incur losses as well as gains. The Sample Portfolio does not reflect the deduction of advisory fees, brokerage, commissions, or any other actual client expenses, which would reduce investor returns. The sample portfolio does not always reflect the potential impact of active management, excluding those investments that are only available from an active manager. Advisory fees are described in Form ADV, Part 2A and are available upon request.

A Sample Portfolio's expected return (comprised of capital appreciation and income/dividends) is calculated the following way:

1. The expected return of each asset class in a given Sample Portfolio is determined through a combination of historical rates of returns, valuation projections, and economic expectations. Expected rates of return are provided by HighMark proprietary research which incorporates Wilshire Associates Incorporated assumptions. Expected rates of return are developed and annually reviewed by HighMark's Asset Allocation Committee.
2. With 30-year forecasts for U.S. Treasuries, Wilshire's ten year forecast for U.S. Treasuries is used as the assumed return for the first ten years of the 30-year period. Over the following twenty years (years 11-30), Wilshire's ULT forecast is used as the assumed return for U.S Treasuries. The resulting combination of the assumed return on U.S. Government bonds over the two periods becomes HighMark's 30-year forecast subject to rounding. All other taxable fixed income asset classes are derived from the expected return on U.S. Treasuries plus a credit or term premium consistent with those of the ten year forecasts.
3. With 30-year forecasts for global equity, Wilshire's ten year forecast for global equity is used as the assumed return for the first ten years of the 30-year period. Over the following twenty years (years 11-30), Wilshire's ULT forecast is used as the assumed return for global equities. The return on cash over this period is derived from the 10 and 30-year cash assumptions. The resulting combination of the assumed global equity returns over the two periods becomes HighMark's 30-year forecast subject to rounding.
4. Returns reflect the reinvestment of dividends, interests, and other distributions.
5. An expected return for the Sample Portfolio is then calculated by weighting the returns for each asset class according to the exposure as determined by HighMark's current strategic allocation.

Expected returns generated are before taxes and any fees. The standard deviation for an asset class represents its possible divergence of the actual return for an asset class from its expected return. It is a statistical measure of the potential magnitude of volatility of an asset class from its expected return. The range of returns may be higher or lower than those predicted by expected standard deviation.

In certain sub asset classes where Wilshire does not provide a discrete 10-year return forecast, HighMark supplements Wilshire's 10-year expected returns with its proprietary methodology which is based on various market and economic factors some of which are described below. To obtain a full copy of the methodology please contact IMTProduct@unionbank.com.

- US Equities – Expected returns at sub asset class level are determined by starting with Wilshire Broad Market 10 year forecast and interpolating into sub asset class returns by referencing Wilshire 5000 index data.
- Municipal Bonds – HighMark determines expected returns by assuming there will be historical return discounts for municipal bonds relative to U.S. Treasuries.
- Alternative Investments - Expected total return forecasts for alternative investments begin with the forecast for the return on cash over the respective time-horizon and adjusting for estimating the Sharpe ratio (excess return / standard deviation) of each alternative strategy based on the observed long-term performance of a representative strategy specific hedge fund peer group index.

HighMark Capital Management, Inc. (HighMark), an SEC-registered investment adviser, is a wholly owned subsidiary of MUFG Union Bank, N.A. (MUB). HighMark manages institutional separate account portfolios for a wide variety of for-profit and nonprofit organizations, public agencies, and public and private retirement plans. MUB, a subsidiary of MUFG Americas Holdings Corporation, provides certain services to HighMark and is compensated for these services. Past performance does not guarantee future results. Individual account management and construction will vary depending on each client's investment needs and objectives. **Investments employing HighMark strategies are NOT insured by the FDIC or by any other Federal Government Agency, are NOT Bank deposits, are NOT guaranteed by the Bank or any Bank affiliate, and MAY lose value, including possible loss of principal.**

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Investment Guidelines Document

City of San Leandro

Employee Benefit Fund Pension Plan

May 2021

Investment Guidelines Document

Scope and Purpose

The purpose of this Investment Guidelines Document is to:

- Facilitate the process of ongoing communication between the Plan Sponsor and its plan fiduciaries;
- Confirm the Plan's investment goals and objectives and management policies applicable to the investment portfolio identified below and obtained from the Plan Sponsor;
- Provide a framework to construct a well-diversified asset mix that can potentially be expected to meet the account's short- and long-term needs that is consistent with the account's investment objectives, liquidity considerations and risk tolerance;
- Identify any unique considerations that may restrict or limit the investment discretion of its designated investment managers;
- Help maintain a long-term perspective when market volatility is caused by short-term market movements.

Key Plan Sponsor Account Information as of May 2021

Plan Sponsor:	City of San Leandro
Governance:	The City Council of the City of San Leandro
Plan Name ("Plan"):	City of San Leandro Employee Benefit Fund Pension Plan
Trustee:	US Bank Contact: Susan Hughes, 949-224-7209 susan.hughes@usbank.com
Type of Account:	Pension Plan
ERISA Status:	Not subject to ERISA
Investment Manager:	US Bank, as discretionary trustee, has delegated investment management responsibilities to HighMark Capital Management, Inc. ("Investment Manager"), an SEC-registered investment adviser Contact: Randall Yurchak, CFA, 415-705-7579 Randall.yurchak@highmarkcapital.com

Investment Authority: Except as otherwise noted, the Trustee, US Bank, has delegated investment authority to HighMark Capital Management, an SEC-registered investment adviser. Investment Manager has full investment discretion over the managed assets in the account. Investment Manager is authorized to purchase, sell, exchange, invest, reinvest and manage the designated assets held in the account, all in accordance with account's investment objectives, without prior approval or subsequent approval of any other party(ies).

Investment Objectives and Constraints

The goal of the Plan's investment program is to provide a reasonable level of growth which, will result in sufficient assets to pay the present and future obligations of the Plan. The following objectives are intended to assist in achieving this goal:

- The Plan should seek to earn a return in excess of its policy benchmark over the life of the Plan.
- The Plan's assets will be managed on a total return basis which takes into consideration both investment income and capital appreciation. While the Plan Sponsor recognizes the importance of preservation of capital, it also adheres to the principle that varying degrees of investment risk are generally rewarded with compensating returns. To achieve these objectives, the Plan Sponsor allocates its assets (asset allocation) with a strategic perspective of the capital markets.

Investment Time Horizon: 6-8 years

Anticipated Cash Flows: Assets in the Plan will seek to mitigate the impact of future rate increases from CalPERS. Typically increases in rates come with a one-year advance warning, however this Plan may transfer assets to CalPERS at any time.

Investment Objective: The primary objective is to generate a reasonable level of growth. The assets in this Plan will eventually be used to fund Pension Plan obligations for assets managed in the CalPERS Trust.

Risk Tolerance: *Moderate*
The account's risk tolerance has been rated moderate, which demonstrates that the account can accept price fluctuations to pursue its investment objectives.

Strategic Asset Allocation: The asset allocation ranges for this objective are listed below:

<i>Strategic Asset Allocation Ranges</i>		
Cash	Fixed Income	Equity
0-20%	40%-60%	40%-60%
Policy: 5%	Policy: 45%	Policy: 50%

Market conditions may cause the account's asset allocation to vary from the stated range from time to time. The Investment Manager will rebalance the portfolio no less than quarterly and/or when the actual weighting differs substantially from the strategic range, if appropriate and consistent with your objectives.

Security Guidelines:

Equities

With the exception of limitations and constraints described above, Investment Manager may allocate assets of the equity portion of the account among various market capitalizations (large, mid, small) and investment styles (value, growth). Further, Investment Manager may allocate assets among domestic, international developed and emerging market equity securities.

Total Equities	40%-60%
<i>Equity Style</i>	<i>Range</i>
Domestic Large Cap Equity	15%-45%
Domestic Mid Cap Equity	0%-10%
Domestic Small Cap Equity	0%-15%
International Equity (incl. Emerging Markets)	0%-15%
Real Estate Investment Trust (REIT)	0%-15%

Fixed Income

In the fixed income portion of the account, Investment Manager may allocate assets among various sectors and industries, as well as varying maturities and credit quality that are consistent with the overall goals and objectives of the portfolio.

Total Fixed Income	40%-60%
<i>Fixed Income Style</i>	<i>Range</i>
Long-term bonds (maturities >7 years)	0%-25%
Intermediate-term bonds (maturities 3-7 years)	25%-60%
Short-Term bonds (maturities <3 years)	0%-25%
High Yield bonds	0%-10%

Performance Benchmarks:

The performance of the total Plan shall be measured over a three and five-year periods. These periods are considered sufficient to accommodate the market cycles experienced with investments. The performance shall be compared to the return of the total portfolio blended benchmark shown below.

Total Portfolio Blended Benchmark

26.50%	S&P 500 Index
5.00%	Russell Mid Cap Index
7.50%	Russell 2000 Index
3.25%	MSCI Emerging Market Index
6.00%	MSCI EAFE Index
1.75%	Wilshire REIT Index
33.50%	Bloomberg Barclays US Aggregate Bond Index
10.00%	ML 1-3 Year US Corp/Gov't Index
1.50%	US High Yield Master II Index
5.00%	Citi 1Mth T-Bill Index

Asset Class/Style Benchmarks

Over a market cycle, the long-term objective for each investment strategy is to add value to a market benchmark. The following are the benchmarks used to monitor each investment strategy:

Large Cap Equity	S&P 500 Index
Growth	S&P 500 Growth Index
Value	S&P 500 Value Index
Mid Cap Equity	Russell Mid Cap Index
Growth	Russell Mid Cap Growth Index
Value	Russell Mid Cap Value Index
Small Cap Equity	Russell 2000 Index
Growth	Russell 2000 Growth Index
Value	Russell 2000 Value Index
REITs	Wilshire REIT Index
International Equity	MSCI EAFE Index
Investment Grade Bonds	Bloomberg Barclays US Aggregate Bond Index
High Yield	US High Yield Master II Index

Security Selection

Investment Manager may utilize a full range of investment vehicles when constructing the investment portfolio, including but not limited to individual securities, mutual funds, and exchange-traded funds. In addition, to the extent permissible, Investment Manager is authorized to invest in shares of mutual funds in which the Investment Manager serves as advisor or sub-adviser.

Investment Limitations:

The following investment transactions are prohibited:

- Direct investments in precious metals (precious metals mutual funds and exchange-traded funds are permissible).
- Venture Capital
- Short sales*
- Purchases of Letter Stock, Private Placements, or direct payments
- Leveraged Transactions*
- Commodities Transactions Puts, calls, straddles, or other option strategies*
- Purchases of real estate, with the exception of REITs
- Derivatives, with exception of ETFs*

**Permissible in diversified mutual funds and exchange-traded funds*

Duties and Responsibilities**Responsibilities of Plan Sponsor**

The Plan Administrator for the City of San Leandro is responsible for:

- Confirming the accuracy of this Investment Guidelines Document, in writing.
- Advising Trustee and Investment Manager of any change in the plan/account's financial situation, funding status, or cash flows, which could possibly necessitate a change to the account's overall risk tolerance, time horizon or liquidity requirements; and thus would dictate a change to the overall investment objective and goals for the account.
- Monitoring and supervising all service vendors and investment options, including investment managers.
- Avoiding prohibited transactions and conflicts of interest.

Responsibilities of Trustee

The plan Trustee is responsible for:

- Valuing the holdings.
- Collecting all income and dividends owed to the Plan.
- Settling all transactions (buy-sell orders).

Responsibilities of Investment Manager

The Investment Manager is responsible for:

- Assisting the Plan Administrator with the development and maintenance of this Investment Policy Guideline document annually.
- Meeting with the Plan Administrator annually to review portfolio structure, holdings, and performance.
- Designing, recommending and implementing an appropriate asset allocation consistent with the investment objectives, time horizon, risk profile, guidelines and constraints outlined in this statement.
- Researching and monitoring investment advisers and investment vehicles.
- Purchasing, selling, and reinvesting in securities held in the account.
- Monitoring the performance of all selected assets.
- Voting proxies, if applicable.
- Recommending changes to any of the above.

- Periodically reviewing the suitability of the investments, being available to meet with the committee at least once each year, and being available at such other times within reason at your request.
- Preparing and presenting appropriate reports.
- Informing the committee if changes occur in personnel that are responsible for portfolio management or research.

Acknowledgement and Acceptance

I/We being the Plan Sponsor with responsibility for the account(s) held on behalf of the Plan Sponsor specified below, designate Investment Manager as having the investment discretion and management responsibility indicated in relation to all assets of the Plan or specified Account. If such designation is set forth in the Plan/trust, I/We hereby confirm such designation as Investment Manager.

I have read the Investment Guidelines Document, and confirm the accuracy of it, including the terms and conditions under which the assets in this account are to be held, managed, and disposed of by Investment Manager. This Investment Guidelines Document supersedes all previous versions of an Investment Guidelines Document or investment objective instructions that may have been executed for this account.

_____ Date: _____
 Plan Sponsor: City of San Leandro

_____ Date: _____
 Investment Manager: Randall Yurchak, CFA, Senior Portfolio Manager, (415) 705-7579