



Agenda Report

DATE: FEBRUARY 6, 2018

TO: CITY COUNCIL

FROM: ADMINISTRATIVE SERVICES – FINANCE

SUBJECT: ADOPTION OF RESOLUTION AUTHORIZING THE CITY MANAGER TO ESTABLISH AN IRREVOCABLE PENSION TRUST FUND WITH PFM ASSET MANAGEMENT LLC

STATEMENT OF ISSUE:

On July 18, 2017, City Council authorized the allocation of \$12.8 million in unassigned General Funds to an irrevocable pension trust fund to be established by the Council at a later date, as well as the creation of a Statement of Investment Policy for the trust. Staff completed a formal Request for Proposal process to select a vendor to provide Section 115 pension trust management services and is recommending PFM Asset Management LLC (PFM) as the trust manager. The Council Finance Committee met on November 7, 2017 and concurs with staff's recommendation that PFM provide investment management services for the City's new pension trust fund.

RECOMMENDED ACTION:

Adopt the Resolution authorizing the City Manager to establish an Irrevocable Pension Trust Fund with PFM Asset Management LLC.

Background

On April 18, 2017, Staff provided the City Council with an overview of the challenges presented by anticipated large increases in pension contributions. At that meeting, the Council authorized the creation of an irrevocable pension trust as a tool to be used in mitigating the anticipated large future cost increases.

Staff then presented the General Fund Long Term Financial Forecast to the Finance Committee on June 6, 2017 and to the full Council on July 18, 2017, highlighting operating budget challenges within the next four to five years as a result of the increasing pension costs. The challenges posed by these increases are projected to turn currently anticipated operating surpluses into deficits. Following the City Council's July 18, 2017 approval to allocate \$12.8 million to an irrevocable pension trust, staff began the process to establish the trust.

DISCUSSION:

In August 2017, staff developed a Request for Proposal (RFP) to issue to prospective firms with experience in the area of establishing and managing Section 115 Pension Trust Funds. The RFP was issued on September 13, 2017 to four firms. In response to the RFP, the City received three qualified proposals. Staff formed a review committee comprised of Ron Cassano, Elected City Treasurer; Tracy Vesely, Interim Administrative Services Director; and Gita Mehirdel, Finance Manager, to conduct a comprehensive review process.

RFP Timeline

City releases RFP	September 13, 2017
City responds to all questions	September 27
Proposals due	October 11
City Evaluation of RFPs	October 12 -16
Interviews	October 23
Selection Committee selects and notifies best qualified firm	October 25
Council Finance Committee Review	November 7
City Council considers contract award	February 6, 2018

After the initial evaluation review, two firms were invited to interview with the review team: PARS and PFM. Both candidate firms are highly qualified and have a strong presence in this particular investment market.

Following the interviews, and after considerable evaluation, the review committee unanimously selected PFM as the preferred plan administrator. PFM is a nationwide company that was founded in 1975 to provide independent financial advisory services to the public sector. PFM began providing investment advisory services to public entities in 1980. PFM provides investment advisory and plan administration consulting services to more than 120 defined benefit pension plans and Other Post-Employment Benefits (OPEB) plans – totaling \$4.7 billion in assets as of June 30, 2017. PFM has local offices in San Francisco and serves many California local government agencies. Discussion with select agencies confirms PFM’s high level of customer support and service. In addition, although not the only determining factor, PFM’s fee structure provided the lowest cost to the City.

PFM and the City have developed a services agreement, investment policy, and trust documents for consideration. In addition, PFM has recommended the City establish an Investment Committee to provide oversight for investments in the pension trust. Staff and PFM have drafted an Investment Committee Charter (Attachment 3) and Bylaws (Attachment 4) to set forth the Investment Committee’s roles and responsibilities. Upon adoption of these documents, staff will initiate the investment process.

FINANCIAL IMPACTS:

The City Council has authorized the allocation of \$12.8 million in unassigned General Funds to be placed in an irrevocable pension trust. Once placed in the trust, these funds will no longer be

available for other City purposes. The anticipated annual cost for the management of the initial \$12.8 million investment is approximately \$90,000 - \$100,000 per year (about 0.75% of \$12.8 million). The cost is anticipated to be more than offset by annual growth in the trust fund assets. While it is impossible to anticipate precise annual returns, a conservative annual growth of 4% on the initial \$12.8 million would yield approximately \$512,000; this will compound annually.

ALTERNATIVE ACTION:

Provide alternate direction to staff regarding establishment of an irrevocable pension trust.

DOCUMENTS:

- Attachment 1: Certification of Pension Trust Resolution
- Attachment 2: Adoption Agreement
 - Exhibit A: Administrative Services Agreement
 - Exhibit B: Wells Fargo Account Agreement
 - Exhibit C: Investment Policy Statement
- Attachment 3: Charter of the Investment Committee
- Attachment 4: Bylaws of the Investment Committee

CITY COUNCIL ACTION RECOMMENDED:

Move to adopt the Resolution Authorizing the City Manager to establish an Irrevocable Pension Trust Fund with PFM Asset Management LLC.

STAFF CONTACT: Amy Cunningham, Administrative Services Director
(925) 943-5899, ext. 5810
acunningham@walnut-creek.org