

## STAFF REPORT

DATE: April 28, 2022  
TO: Budget Committee  
FROM: Philip D. Smith, District Manager and Dana Shigley, Management Aide  
SUBJECT: Potential Future Adoption of Section 115 Pension Prefunding Trust

---



### RECOMMENDATION

The Budget Committee and staff recommend that the Board:

1. Receive and discuss the presentation on the California Employers' Pension Prefunding Trust (CEPPT) from Karen Lookingbill of CalPERS Affiliate Programs staff
2. Consider a motion directing staff on whether to proceed with establishing a Section 115 Pension Trust Fund account with CEPPT.

### BACKGROUND AND ANALYSIS

#### Pension Funded Status and Potential Benefits of Establishing a Prefunding Trust Account

Many public agencies are finding it beneficial to establish a Section 115 Trust Account to prefund a portion of their pension obligations, which form a substantial ongoing part of the District's annual budget; over 12% of total budget in the current fiscal year. In addition to the normal pension cost, for many years, the District has made amortized payments and special contributions to the Marin County Employees' Retirement Association (MCERA) towards its unfunded accrued liabilities (UAL), which totaled approximately \$4M in 2018 and \$7.2M in June 2020. Although MCERA's most recent valuation estimates that as of June 30, 2021, the District is fully funded, whether that status will be maintained depends heavily on the future performance of MCERA's investments. As noted in MCERA's valuation report, the UAL is highly sensitive to minor changes in the discount rate (the specified estimate of future investment returns). If returns fall short of MCERA's target, the unfunded liabilities will recur.

Establishing a pension prefunding trust could allow the District to grow assets towards future pension contributions, potentially offering greater stability for budgeting purposes. Investing with a prefunding trust is likely to yield a greater rate of return than that offered by the County of Marin Treasury or Local Agency Investment Fund (LAIF), while maintaining the liquidity of the assets. Target rates of return at CEPPT are 4% and 5% respectively for the two investment strategies at CEPPT, versus the current rate of below 0.5% at the County Treasury or LIAF. Contributions are voluntary, made at the Board's discretion and are not required.

#### Costs and Administration

Staff surveyed fees and other costs at several fund providers and determined that CEPPT charges the lowest overhead rates (25 basis points). Because the District became a member of the CalPERS system when it began to prefund its OPEB liabilities with California Employees Retirement Benefit Trust (CERBT), the documentation required to establish a CEPPT account is straightforward, consisting of a resolution and funding policy that could be considered at the July 13, 2021, meeting. Also, the CalPERS

## Attachment C 1

Affiliate Program staff who administer the CEPPT, also administer CERBT and are familiar with the District's financial situation.

### Initial Deposit Amount

Should the District elect to proceed with prefunding a portion of its pension expenditures with CEPPT, the Budget Committee and staff would recommend an initial deposit of \$1.1M, representing the required pension contribution for fiscal year 2022-23. This sum would comply with proposed Policy 5080. Future contributions to or withdrawals from a Trust would be entirely at the Board's discretion.

### **CONCLUSION**

After careful consideration, due to the potential advantages described in this report, it is recommended that the Committee consider recommending to the Board that the District establish a Section 115 pension prefunding trust with the CEPPT.