



Lou Ann Teixeira  
 Executive Officer

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October 8, 2014  
 Agenda Item 12

October 8, 2014

Contra Costa Local Agency Formation Commission  
 651 Pine Street, Sixth Floor  
 Martinez, CA 94553

**Post Retirement Medical Benefits Trust Agreement**

Dear Members of the Commission:

**BACKGROUND:** Contra Costa LAFCO provides post retirement health benefits for its retired employees and their spouses and dependents. Currently, LAFCO has three retirees and two active employees. In order to fund “Other Post-Employment Benefits (OPEB)” and reduce long-term liability to LAFCO, the Commission initiated a plan to fund future costs associated with this benefit. Since 2011-12, LAFCO has included in its budget an annual expense of \$10,000 to fund its OPEB liability. To date, the Commission has set aside a total of \$40,000 for this purpose. The funds are currently in the LAFCO fund balance account.

LAFCO staff has explored trust options for holding LAFCO’s assets to fund post-retirement benefits. The preferred option is to participate with the County in the Public Agencies Post-Retirement Health Care Plan Trust (“Trust”) administered by Public Agency Retirement Services (PARS). PARS is a direct trust administrative provider, and not a broker, and offers significant economies of scale as a multiple-employer trust serving various types of public agencies for combined asset growth without risk-sharing. PARS has over 30 years as a trust administrator and nearly 20 years in OPEB administration.

According to the County, PARS is one of the three largest and most qualified firms that provide OPEB trust services for California counties and municipalities. Others include California Public Employees Retirement System and International City/County Management Association. After reviewing all plans to determine the best return on investment, security and flexibility, the County selected PARS.

PARS provides the security of a Private Letter Ruling from the IRS that assures participating employers the tax-exempt status of their investments. While PARS is a multi-employer trust, it allows the County flexibility in selecting investment strategies for its funds. Further, there is no sharing of either liability or investment earnings among agency participants; separate employer

accounts are maintained. Contributions made to the program are held and invested by a trustee, which is U.S. Bank, N.A. HighMark Capital Management, the investment management subsidiary of MUFG Union Bank, N.A., serves as the Investment Manager. The County Treasurer-Tax Collector serves as the County's PARS Plan Administrator.

PARS serves as the administrator for the trust and performs the following duties: 1) establishes the master trust and prepares plan documents, 2) monitors the receipt of contributions, 3) processes reimbursements of OPEB premiums and expenses, 4) prepares monthly activity reports, 5) coordinates actuarial studies, 6) responds to auditor requests, and 7) keeps the County informed about legal and regulatory requirements.

**DISCUSSION:** County and LAFCO staff discussed the option of allowing LAFCO to become a subaccount under the County's PARS Trust agreement. LAFCO's subaccount would be aggregated with the County's account for investment and administration purposes. LAFCO's annual asset fee would be .05% of LAFCO assets invested with PARS; there would be no other fees for LAFCO. <sup>1</sup>

The County's Advisory Committee discussed LAFCO's participation in the County's plan and next steps. The Committee is composed of the County Administrator, County Finance Director, Treasurer-Tax Collector, Auditor-Controller, and Health Services Finance Director. The Committee was supportive of allowing LAFCO to participate in the PARS Trust program as a subaccount under the County's plan.

In order to participate in the PARS Trust program, LAFCO must first conduct an actuarial valuation to calculate the future liability for retiree healthcare and other post-employment benefits. The calculations project the liability for active employees during their retirement, and for any retired employees who elect to receive post-employment benefits. In March 2014, LAFCO completed an actuarial valuation prepared by Demsey, Filliger & Associates, LLC through a consortium with the California Special Districts Association and the California School Boards Association. The actuarial information will also be used in preparing LAFCO's annual financial audit. In accordance with Government Accounting Standard Board (GASB 45), LAFCO is required to disclose any unfunded post-employment benefits in its annual audits. Government accounting rules allow employers that prefund to use a higher "discount rate" assumption, which reduces future OBEP liabilities on financial statements.

LAFCO's actuarial valuation shows an Employer-Paid Accrued Liability of \$516,522 and an annual contribution of \$52,278 (see Attachment 1) which would fully fund the liability over a period of 30

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<sup>1</sup> Per annum investment management fees for the County's account are based on the following sliding scale: .35% on the first \$5,000,000; .25% on the next \$5,000,000; .20% on the next \$5,000,000; .15% on the next \$35,000,000; .10% on the next \$50,000,000; and .05% on all assets over \$100,000,000. LAFCO's annual investment management fee would be applied proportionately based on total assets in the County's PARS Trust program. Per annum trust administration fees for the County's account are based on the following sliding scale: .25% on the first \$10,000,000; .20% on the next \$5,000,000; .15% on the next \$35,000,000; .10% on the next \$50,000,000; and .05% on all assets over \$100,000,000. LAFCO's annual trust administration fee would be applied proportionately based on total assets in the County's PARS Trust program. As of June 30, 2014, the annual blended asset based fee for both investment management services and trust administration was approximately 0.22%.

years. LAFCO does not currently have sufficient revenues to fully fund the obligation. As noted above, in 2011-12, LAFCO began funding the OPEB liability and has accrued \$40,000 for this purpose. The \$40,000 will be placed in the trust account once established.

In addition to the actuarial valuation, LAFCO will also need to adopt a resolution to join the PARS Trust as adopted by Contra Costa County (attached). Following LAFCO's approval, the County Board of Supervisors will need to adopt a resolution accepting Contra Costa LAFCO into its plan.

**RECOMMENDATIONS:** 1) Adopt the attached resolution authorizing participation in the PARS Trust as adopted by Contra Costa County; and 2) forward the LAFCO documents to Contra Costa County with a request to the County to accept Contra Costa LAFCO in the County's plan.

Sincerely,

LOU ANN TEXEIRA  
EXECUTIVE OFFICER

c: Lisa Driscoll, County Finance Director

Attachments

- 1 - LAFCO Actuarial Valuation - Summary of Results
- 2 - LAFCO Resolution Authorizing Participation in the PARS Public Agencies Post-Retirement Health Care Plan Trust
- 3 - PARS Public Agencies Post-Retirement Health Care Plan Trust

# GASB45

## SOLUTIONS

### Summary of Results for GASB 45 Alternative Measurement Method as of 7/1/2013

According to the results listed in the table below, Contra Costa LAFCO has an Accrued Liability (AL) of \$516,522. Because Contra Costa LAFCO does not have an irrevocable trust for the pre-funding of retiree benefits, the Unfunded Accrued Liability (UAL) is also \$516,522. This report also determines that the Annual Required Contributions (ARC) under GASB 45 is \$52,278. This is comprised of the present value of benefits accruing in the current year (called the "Service Cost") and a 30-year amortization of the UAL.

	<u>Actives</u>	<u>Retirees</u>	<u>Total as of Valuation Date</u>
Total PVB	\$588,323	\$178,806	\$767,129
Total PUC AL	406,384	178,806	585,190
Total PUC SC	25,991	0	25,991
Retiree-Paid PVB	66,536	33,254	99,790
Retiree-Paid PUC AL	35,414	33,254	68,668
Retiree-Paid PUC SC	4,446	0	4,446
Employer PVB	521,787	145,552	667,339
Employer PUC AL	370,970	145,552	516,522
Employer PUC SC	21,545	0	21,545
Accrued Liability			516,522
Assets (from client input)			<u>0</u>
Unfunded Accrued Liability			<b>516,522</b>
<b>Annual Required Contributions (ARC) for year ending</b>			<b><u>6/30/2014</u></b>
Service Cost at end of year			\$22,407
30 year Amortization of UAL			<u>29,871</u>
Total ARC			<b>\$52,278</b>

Key Definitions:

PVB = Present Value of Benefits: this is the present value of all projected benefits

AL= Accrued Liability: this is the present value of benefits that are attributed to past service only

UAL = Unfunded Accrued Liability: this is equal to the AL minus assets

ARC = Annual Required Contribution: this is the amount Contra Costa LAFCO would be required to report as an expense for the upcoming fiscal year under GASB 45 which Present Value of Benefits is apportioned into Accrued Liability and Service Cost

SC = Service Cost: this is the proportion of the actuarial present value of plan benefits and expenses which is allocated to a valuation year by the actuarial cost method used in the valuation

PUC = Projected Unit Credit: this is an actuarial cost method (one of 6 permitted by GASB 45) under which Present Value of Benefits is apportioned into Accrued Liability and Service Cost

**RESOLUTION NO. 2014-2**

**AUTHORIZING PARTICIPATION IN THE CONTRA COSTA COUNTY PARS  
PUBLIC AGENCIES POST-RETIREMENT HEALTH CARE PLAN TRUST**

**WHEREAS**, the Contra Costa Local Agency Formation Commission (LAFCO) is an independent regulatory agency created by the State Legislature; and

**WHEREAS**, pursuant to Government Code §56385, LAFCO may provide benefits, including retirement, health and medical, to its employees; and

**WHEREAS**, Contra Costa LAFCO provides health benefits to its retired employees, their spouses and dependents; and

**WHEREAS**, it is determined to be in the best interest of Contra Costa LAFCO to participate with Contra Costa County in the PARS Public Agencies Post-Retirement Health Care Plan Trust (the "Program") to fund post-employment benefits for its employees and retirees; and

**WHEREAS**, Contra Costa LAFCO is eligible to participate in the Program, a tax exempt trust and plan performing an essential governmental function within the meaning of Section 115 of the Internal Revenue Code, as amended, and the regulations issued thereunder, and a tax-exempt trust under the relevant statutory provision of the State of California; and

**WHEREAS**, Contra Costa LAFCO desires to participate in the program as a subaccount of Contra Costa County and subject to approval by the Contra Costa County Board of Supervisors; and

**WHEREAS**, the assets in the subaccount shall be held in the Program for the exclusive purpose of funding health benefits for Contra Costa LAFCO retired employees, their spouses and dependents, and shall not be used for or diverted to any other purpose.

**NOW, THEREFORE, BE IT RESOLVED** that Contra Costa LAFCO hereby approves participating in the Public Agencies Post-Retirement Health Care Plan Trust (Exhibit A), as adopted by the County of Contra Costa, subject to approval of LAFCO's participation in Contra Costa County's Post-Retirement Health Benefits Trust by the Contra Costa County Board of Supervisors.

**BE IT FURTHER RESOLVED**, that the Contra Costa County Treasurer-Tax Collector, or his or her successor or his or her designee, is the Plan Administrator for the Program; and, upon approval by the Contra Costa County's Board of Supervisors to add LAFCO as a subaccount to the Program, is authorized to execute any PARS legal and administrative documents related to LAFCO's participation as a subaccount in the Program, and to take whatever additional actions as necessary to maintain compliance of any relevant regulation issued or as may be issued, therefore authorizing the Plan Administrator to take whatever additional actions as required to administer the Program.

\*\*\*\*\*

PASSED AND ADOPTED THIS 8<sup>TH</sup> day of October 2014, by the following vote:

AYES:

NOES:

ABSTENTIONS:

ABSENT:

\_\_\_\_\_  
ROB SCHRODER, VICE CHAIR, CONTRA COSTA LAFCO

*I hereby certify that this is a correct copy of a resolution passed and adopted by this Commission on the date stated above.*

Dated: October 10, 2014

\_\_\_\_\_  
Lou Ann Texeira, Executive Officer

**ADOPTION AGREEMENT**  
**TO THE**  
**PUBLIC AGENCIES**  
**POST-RETIREMENT HEALTH CARE PLAN**

**No guaranty that payments or reimbursements to employees, former employees or retirees will be tax-free.** The Trust has obtained a ruling from the Internal Revenue Service concerning only the federal tax treatment of the Trust's income. That ruling may not be cited or relied upon by the Employer whatsoever as precedent concerning any matter relating to the Employer's health plan(s) (including post-retirement health plans). In particular, that ruling has no effect on whether contributions to the Employer's health plan(s) or payments from the Employer's health plan(s) (including reimbursements of medical expenses) are excludable from the gross income of employees, former employees or retirees, under the Internal Revenue Code. The federal income tax consequences to employees, former employees and retirees depend on the terms and operation of the Employer's health plan(s).

## **Introduction**

By executing this Adoption Agreement, the Employer specified in Section II of this Adoption Agreement adopts the Public Agencies Post-Retirement Health Care Plan Document (the "Trust Agreement").

Defined terms shall have the meanings attributed to such terms of the Trust Agreement.

The Employer hereby selects the following Plan specifications:

### **Section I**

#### **Plan and Trust Information**

A.1.1 FULL NAME OF TRUST: Public Agencies Post-Retirement Health Care Plan Trust

A.1.2 FULL NAME OF PLAN: County of Contra Costa Post-Retirement Health Benefits Plan

A.1.3 EFFECTIVE DATE OF PLAN: If this is a restatement of an existing plan, the restatement became effective:                     n/a                    .

### **Section II**

#### **Employer Information**

A.2.1 EMPLOYER INFORMATION:

NAME OF AGENCY: Contra Costa Local Agency Formation Commission (LAFCO)

ADDRESS: (Street): 651 Pine Street, Sixth Floor

(City, State Zip code): Martinez, CA 94553

(Phone Number): (925) 335-1094

A.2.2 EMPLOYER'S PLAN ADMINISTRATOR: LAFCO Executive Officer

A.2.3 EMPLOYER'S TAX IDENTIFICATION NUMBER: 94-6000509

A.2.4 EMPLOYER'S FISCAL YEAR means the 12 consecutive month period:

Commencing on (month, day) July 1 and

Ending on (month, day) June 30

### **Section III (Reserved)**

### **Section IV Investment**

A.4.1 INVESTMENT APPROACH: The Employer shall select either a discretionary or a directed approach to investment.

\_\_\_\_\_ a. Discretionary Investment Approach

If the Discretionary Investment Approach is selected, the Employer hereby directs the Trustee to invest the Assets of the Employer's Agency Account pursuant to one of the investment strategies listed on the accompanying Investment Strategy Selection and Disclosure Form or another investment strategy as mutually agreed upon by the Employer and the Trustee.

\_\_\_\_\_ b. Directed Investment Approach

If the Directed Investment Approach is selected, the Employer must attach its investment policy and retain its own Registered Investment Advisor. The Employer shall be permitted to direct investments of its Agency Account pursuant to the terms of the Trust Agreement.

\*\*\* SIGNATURE PAGE FOLLOWS \*\*\*



**Execution and Adoption of Plan and Related Documents**

By executing this Adoption Agreement, the Employer hereby adopts and agrees to be bound by the Master Plan Document and the Trust Agreement, and hereby ratifies, confirms and approves the appointment of Union Bank, N.A. as the Trustee and the appointment of Public Agency Retirement Services as the Trust Administrator as of the Effective Date.

The Employer understands and agrees that the Trust Agreement may be amended from time to time by a vote of the Employers as set forth in the Trust Agreement.

This Adoption Agreement is hereby executed and effective as of this \_\_\_\_\_ day of \_\_\_\_\_, 2014.

**EMPLOYER: CONTRA COSTA LAFCO**

By: \_\_\_\_\_  
**Lou Ann Texeira, LAFCO Executive Officer**

**ACCEPTED:**

**Trust Administrator: Phase II Systems, dba Public Agency Retirement Services**

By: \_\_\_\_\_ Title: \_\_\_\_\_

Date: \_\_\_\_\_

**Trustee and Investment Fiduciary: Union Bank, N.A.**

By: \_\_\_\_\_ Title: \_\_\_\_\_

Date: \_\_\_\_\_

By: \_\_\_\_\_ Title: \_\_\_\_\_

Date: \_\_\_\_\_