



CITY OF BELVEDERE

FINANCE SUB-COMMITTEE: Taskforce on Pensions & OPEBs

AGENDA

February 23, 2021

Via Zoom

1:00 p.m.

Join Zoom Meeting

<https://us02web.zoom.us/j/87121735080?pwd=ZEluZDdxOEdhZGZYUVM3SDkyRVIIUT09>

Meeting ID: 871 2173 5080

Passcode: Belvedere

Dial by your location

833 548 0282 US Toll-free

877 853 5247 US Toll-free

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833 548 0276 US Toll-free

Meeting ID: 871 2173 5080

Passcode: 748066599

1. Approve minutes from February 9, 2021 meeting.
2. Briefings/Discussion of the City's pension position and potential strategies for managing pension liabilities, including:
 - a. A discussion with the City's CalPERS Actuary;
 - b. A discussion with a representative from PARS..
3. Briefings/Discussion of the City's OPEB position and potential strategies for managing OPEB liabilities.
4. Adjourn.

Attachments:

1. Memo to the Taskforce and associated attachments.

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**SPECIAL MEETING
FINANCE SUB-COMMITTEE
Taskforce on Pensions and OPEBs
Tuesday, February 9, 2021
12:00 PM
on Zoom remote platform**

MINUTES

COMMITTEE PRESENT: Steve Block, Bob McCaskill, David Walker, Sally Wilkinson

COMMITTEE ABSENT: N/A

OTHERS PRESENT: City Manager – Craig Middleton,
Admin. Services Manager – Amber Johnson

CALL TO ORDER OF SPECIAL MEETING

The meeting was called to order at 12:00 p.m.

SCHEDULED ITEMS

1. The Committee discussed the background and relevant issues around the City's OPEB liabilities. After much discussion, follow-up tasks were assigned to various members of the Committee to be presented at a future meeting for analysis.

ADJOURN

The meeting was adjourned at 2:00 p.m.

THE FOREGOING MINUTES were approved at a regular meeting of the Finance Committee on __, 2021 by the following vote:

AYES: —
NOES: —
ABSENT: —
ABSTAIN: —

APPROVED _____
Sally Wilkinson, Chair

ATTEST _____
Amber Johnson, Admin. Services Manager

Pension Reserve Policy

The attach proposed resolution sets forth a proposal for a new pension reserve policy for the City of Belvedere. The policy proposal rests on the assumption that we can reliably obtain a putative UAL payment that would be due to CalPERS based on a 6% discount rate. This amount is not available by consulting our Valuation Reports or the CalPERS Pension Outlook tool. The Pension Outlook Tool provides a putative amortization schedule but appears to obtain the schedule by amortizing an additional layer of pension liability (attributable to the change in discount rate assumption) beginning the third fiscal year from year during which the tool is consulted. In order to give effect to this proposal we would need to see all existing layers of the City's UAL increased in proportion to the total putative UAL and amortized over their remaining schedules (immediately or in the following year).

In the event CalPERS is unable to provide this information, the ad hoc committee may wish to consider other means to approximate the desired result.

Proposed Resolution Promulgating Belvedere Pension Reserve Policy

Whereas, the City of Belvedere (the “City”) currently maintains a significant unfunded pension liability (the “Pension Liability”) as a result of the City’s participation in the California Public Employee Retirement System (“CalPERS”); and

Whereas, as of the date of the date of promulgation of this Policy, the City’s Pension Liability is based on a discount rate of 7%; and

Whereas there is a reasonable concern that CalPERS might not attain the geometric return of 7% necessary to fund the City’s liabilities given widely held intermediate term economic assumptions; and

Whereas, the assets held by CalPERS for the purposes of funding the City’s pension obligations are selected to fund the aggregate liabilities of all contracting sponsors and these assets are higher return and riskier than those which would be prudently held to fund the City’s liability on a stand-alone basis; and

Whereas, it is the judgement of the City Finance Committee that a reasonable putative rate for calculating the City’s liabilities given the foregoing considerations would be between 75 and 100 basis points below the 7 percent rate currently employed by CalPERS;

Now therefor, the City Council has determined that it shall be the policy of the City to provide for additional pension reserves as follows:

First, the City will establish a Section 115 Trust (the “Trust”) with [Name Trustee, “Trustee”] for the purposes of holding assets (“Trust Assets”) to fund its current and additional unforeseen pension liabilities;

Second, the Trust Assets shall be invested and reinvested in the [TBD] asset mix made available by Trustee;

Third, each month, the City shall fund the trust with a dollar deposit equal to:

- (a) the total aggregate normal cost payments that would be due to CalPERS that month based on a putative discount rate of 6% (collectively, the “City Normal Cost”)

Plus:

- (b) the aggregate unfunded liability payments that would be due to CalPERS during that month based on a putative discount rate of 6% (the “City UAL Payment”) multiplied by the ratio equal to: (the total unfunded liability based on a putative discount rate of 6% (the “City UAL”) less Trust Assets) over (the total City UAL)

Less:

- (c) the total payments due to CalPERS during that month for normal costs and unfunded liabilities.

The City shall refer to the most recent CalPERS valuation reports in order to determine the City Normal Cost, the City UAL and the CalPERS UAL. The City shall obtain the City UAL Payment amounts through [consultation with the assigned CalPERS actuary]. In the event information provided in the CalPERS valuation reports is insufficient for this determination, the City shall make its best efforts to obtain this information from its assigned CalPERS actuary.

Fourth, notwithstanding anything else in this Policy, the City shall not contribute less than [\$200,00] or more than [\$400,000] to the Trust in any given fiscal year.

Fifth, this Policy shall replace the current Policy for creating reserves for City pension obligations and amounts already reserved under such prior Policy shall be used to fund payments hereunder until they are expended.

Sixth, this Policy shall not replace or alter the City Emergency Reserve Policy;

Seventh, the City Finance Committee shall review this Policy every [four] years to determine whether it meets the City's requirements given circumstances current at that time.

Eighth, this Policy shall be incorporated into the City Administrative Policy manual.

City of Belvedere Pension Policy – DRAFT

Pension Funding Policy Tenets

The City of Belvedere is committed to fiscal sustainability. It seeks to maintain both multi-year budget balance and a generous level of reserves to cushion against exogenous shocks. One of the biggest risks to the City's fiscal sustainability is its pension obligations. It is bound by law to a defined benefit pension plan for its employees¹. The City is therefore formalizing a policy to steadily fund its pension obligations at a prudent rate. This pension funding strategy is based on the following five tenets:

1. The cost of employee benefits should be paid by the generation of taxpayers who receives services.
2. Actuarial assumptions should be prudential to ensure that promised benefits can be paid.
3. Funding shortfalls should be closed expeditiously. The goal is full funding.
4. Significant swings in employer contribution rates are undesirable. Smoothing is desirable.
5. Funding policies and underlying assumptions should be clearly delineated and regularly reviewed.

Pension Funding Rules

Commencing July 1, 2021, the City will adopt the following pension funding rules:

TO BE COMPLETED

Whilst recognizing that no framework can guarantee a fully funded pension plan given the inherent economic and demographic uncertainties that underpin any pension funding model, the City believes this more conservative approach is appropriate, particularly given the large weight of retirees in its plan and its desire to avoid cashflow constraints as those benefits become due.

Valuation Methodology

Funding Mechanics

Management of Assets

Oversight & Review

Reporting

City of Belvedere 2.11.2021

Questions for CalPERS Actuary

1. What is the actuarial gain/(loss) each year for the past 10 years broken down by source, as well as the cumulative gain/(loss) by source over the same period (combined City of Belvedere accounts)?

The actuarial gains and losses, broken down by investment and non-investment, can be found in the actuarial valuation reports. In the June 30, 2019 reports, they can be found on page 10. Below is the exhibit from the Miscellaneous plan. Changes in the unfunded liability due to plan changes, assumption and method changes, if any, would also be shown in this exhibit.

Allocation of Plan's Share of Pool's Experience/Assumption Change

It is the policy of CalPERS to ensure equity within the risk pools by allocating the pool's experience gains/losses and assumption changes in a manner that treats each employer equitably and maintains benefit security for the members of the System while minimizing substantial variations in employer contributions. The Pool's experience gains/losses and impact of assumption/method changes is allocated to the plan as follows:

1. Plan's Accrued Liability	\$13,537,632
2. Projected UAL balance at 6/30/2019	753,794
3. Pool's Accrued Liability ¹	18,394,114,919
4. Sum of Pool's Individual Plan UAL Balances at 6/30/2019 ¹	4,268,374,183
5. Pool's 2018/19 Investment (Gain)/Loss ¹	68,711,010
6. Pool's 2018/19 Non-Investment (Gain)/Loss ¹	70,985,020
7. Plan's Share of Pool's Investment (Gain)/Loss: $[(1) - (2)] + [(3) - (4)] \times (5)$	62,184
8. Plan's Share of Pool's Non-Investment (Gain)/Loss: $(1) + (3) \times (6)$	52,243
9. Plan's New (Gain)/Loss as of 6/30/2019: $(7) + (8)$	114,427
10. Other Changes in the UAL ²	0

2. Has the impact of the phased reduction in discount rate from 7.5% to 7.0% been fully recognized in the AAL and UAL as of June 30, 2019? If not, please show the future annual impacts.

Yes, the 7.0% discount rate was fully recognized in the AAL and UAL in the June 30, 2018 actuarial valuations.

3. What is the annual projected UAL payment and NCR (in US\$ 000s) for the next 20 years?

The annual projected UAL payments can be found on page 13 of the June 30, 2019 valuation reports. The projected normal cost contributions, in dollars, are highly dependent on the City's payroll. The normal cost rates are fairly stable. You can apply the rates found in the June 30, 2019 valuation reports to the City's projected payroll to calculate the projected normal cost contributions. Note that the projected UAL payments and projected normal cost rates assume no experience gains/losses, plan changes or assumption/method changes.

4. What is the annual projected UAL payment and NCR (in US\$ 000s) for the next 20 years if we assume a 6% discount rate and 6% investment return?

The Pension Outlook tool can be used to model changes in the discount rate and future investment returns.

<https://www.calpers.ca.gov/page/employers/actuarial-resources/pension-outlook-overview>

<https://www.calpers.ca.gov/docs/mycalpers-pension-outlook-user-manual.pdf>

5. Can you confirm how a sharp drop in MVA in a single year impacts our annual UAL payments as the loss is amortized. Use a specific example.

Beginning with the June 30, 2019 valuations, investment gains/losses are amortized over 20 years with a 5-year ramp up. Using the Miscellaneous plan as an example, the investment loss of \$62,184 (highlighted in question #1) results in annual UAL payment increases of \$1,557, \$3,113, \$4,670, and \$6,226 over the next 4 years and increases of \$7,783 over the subsequent 16 years. An investment gain or loss of another amount would result in proportional changes in future required contributions as long as there is no change in the discount rate or amortization policy.

6. Can the City select which UAL bases to fund with an excess contribution to CalPERS? If so, with a goal of smoothing the City's payment profile, which bases would they suggest? Are there any financial advantages of paying down one base over another?

Yes, the City can select which amortization bases to apply discretionary contributions to. If the goal is to smooth the City's payment profile, the City may consider performing a fresh start. Page 13 of the June 30, 2019 valuation report provides samples of alternate fresh start amortization schedules. If the goal is to maximize interest savings, the City should pay down bases with the longest amortization period. If the goal is to maximize contribution reductions in the short-term, the City should pay down bases with the shortest amortization period.

7. The City's pension deferred inflows and outflows for CAFR purposes have been large and erratic in recent years. In particular, the deferred inflows AND outflows related to "adjustments due to differences in proportions" have been large. Please walk us through that calculation. We believe this has something to do with the large excess contributions the City made but are not sure.

This question pertains to the City's financial reporting. Please refer to GASB statement 68 and the associated implementation guide for details about the mechanics of that calculation. Send specific questions about the CalPERS GASB 68 Employer Tool to CalPERS_GASB_68@calpers.ca.gov.

8. Specifically, it is reported in Note 8 of the City's FS for FYE June 30, 2020 that "*The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined.*" Please walk us through a summary of that actual calculation. In the same Note, it then shows that the City's proportionate share of the net pension liability increased about 50% from FYE 2018 to FYE 2019. Please explain how this occurred and the impact resulting.

See answer to question #7.

9. Please walk us through how pension costs are attributed to each employer as an employee progresses through his/her career [with multiple employers] and into retirement. Use some specific examples.

For funding purposes, pension costs are attributed over an employee's career using the entry age actuarial cost method. This method calculates a total normal cost rate, which is a level percent of salary from entry into the plan until retirement that is sufficient to fund all future benefits. The employer's normal cost is the portion of the total normal cost not covered by the member contribution rate.

Each year when we perform an actuarial valuation, there are losses (and gains) that change the unfunded liability due to experience different than assumed, plan changes or assumption/method changes. These costs

(and credits) affect the employer required contribution and are not attributed to individual employees or transferred between employers.

10. If the City chooses to adopt a lower discount rate and investment return assumption starting in FY2021-22, does the CalPERS Pension Outlook tool provide us with everything we need to determine our appropriate NCR and UAL payment? If not, can CalPERS provide that to us on an annual basis?

The discount rate is adopted by the CalPERS Board on Administration, not the City. The Pension Outlook tool approximates how a change in the discount rate would affect the minimum required contribution. CalPERS does not give financial advice regarding what is “appropriate” contributions. CalPERS only provide the annual actuarial valuation report which sets the minimum required contribution.

11. If we establish a 115 Trust through CalPERS, is that funding reflected anywhere on our Annual Valuation Report, even as a footnote?

No, the annual valuation only covers the pension trust.

Pension and OPEB Obligations: A Rating Agency Perspective

Background

The assigned task was to find out whether rating agencies view pension assets invested with CalPERS more favorably than those invested through a Section 115 Trust. The answer is no. The assets are treated equally from a credit rating perspective, despite their differing GASB treatment.

What follows is a summary of how rating agencies view pension and OPEB obligations more broadly.

Moody's

- Moody's uses a "market-based" approach to valuing pension and OPEB liabilities for GASB issuers. Concerned about the variability in agencies' assumed discount rates for GASB reporting purposes, Moody's uses a single interest rate to compute the present value of accrued pension and OPEB benefits.
- The rate used is the FTSE Pension Liability Index, which is a high-investment-grade long-term taxable bond index. The rate stood at 2.7% for June 30, 2020 valuations. Moody's refers to the resulting pension and OPEB valuations as the "adjusted net pension liability" and the "adjusted net OPEB liability".
- Using the sensitivity data required under GASB reporting i.e., the impact of +/-1% discount rate shift on the net position, Moody's scales the net pension liability and net OPEB liability to create adjusted net positions. This formula also captures the impact of variations in plan maturity.
- It is important to note that while funding an OPEB trust may allow application of a higher discount rate to value the OPEB liability for GASB reporting purposes, Moody's methodology eliminates this "extra credit" by applying a common, lower discount rate to the OPEB liability regardless of whether the agency has OPEB plan assets.
- Although they maintain legal parity, Moody's implicitly treats pension obligations as senior to bond debt, based on bankruptcy history.
- Ultimately, Moody's is interested in an agency's ability to service its debt obligations and uses a host of factors including economic/tax base factors, agency finances, management, and adjusted net balance sheet obligations to assess creditworthiness.

S&P Global

- S&P Global does not apply its own discount rate to agencies' pension and OPEB liabilities but has issued guidelines on pension and OPEB assumptions and considers the degree to which an agency's assumptions or methods vary in relation to these guidelines.
- The guidelines specifically call for a 100% funding target, a 6% discount rate, and a closed, level-dollar or minimal acceleration amortization schedule over 20 years or less. It also recommends a payroll growth assumption of not more than 1% above long-term inflation of 2.4%, and medical cost inflation of 4.5%. These assumptions are occasionally revised.
- It also considers the maturity of an agency's pension and OPEB plans in assessing its ability to afford rising costs i.e., a 6% discount rate would be viewed as too high for our plan.
- Strategic pension funding policies are viewed favorably, particularly if funded by a dedicated tax stream or other adjustments to revenues/expenditures. Moving money into trust from existing reserves has a more muted impact on overall credit quality.
- Like Moody's, S&P Global uses a host of factors to assess an agency's ability to service its debt, including institutional framework, economy, management, budgetary flexibility, budgetary performance, liquidity, and debt and contingent liabilities.

Fitch Ratings

- Like Moody's, Fitch Ratings applies a fixed discount rate to compute the present value of accrued pension benefits, but that rate is set at 6.0% i.e., based on a conservative investment return assumption, not the risk-free rate that Moody's uses.
- Interestingly, Fitch excludes OPEBs from its measurement of agency liabilities. It believes OPEBs are not immutable, and plan benefits can and do change, so it only factors in annual OPEB funding costs in its credit assessment.
- Like Moody's, Fitch regards pensions as a long-term liability akin or senior to bonded debt given the irrevocable nature of the promised benefits, and pattern of recent bankruptcies which have preserved accrued pension benefits over bonded debt.
- Fitch calculates a hypothetical pension annual funding cost metric, incorporating both the normal cost rate using a 6% discount rate, and dollar flat 20-year amortization at a 5% discount rate of the adjusted net pension liability. It compares this with its more traditional carrying cost metric to assess potential budget stress.
- Fitch's overall credit assessment is based on similar factors to the other rating agencies; in its case the rubric includes revenue framework, expenditure framework, long term liability burden and operating performance.

Takeaways

- Whether we fund a Pension 115 Trust or invest with CalPERS is immaterial from a rating agency perspective.
- Our suggested pension approach of using a lower discount rate and fully funding the adjusted ARC is in line with rating agency orthodoxy.
- Rating agencies reward strategic pension funding strategies, particularly those with dedicated revenue streams.
- Funding an OPEB trust does not afford an automatic discount rate "win" from two of the three rating agencies. Moody's uses its own discount rate to present value OPEB liabilities and Fitch does not recognize the liability in the first place.
- Rating agencies take a favorable view of steps that seek to minimize cost volatility, including lowering of investment risk, as well as funding plans and/or benefit changes that decrease unfunded liabilities over time.
- In discussions, all three agencies suggested that a description of the City's pension funding strategy and remarked position should be included in the notes to the financial statements (assuming we continue to use CalPERS' discount rate for CAFR purposes).

Contacts:

- Moody's: Thomas Aaron
- S&P Global: Timothy Little
- Fitch: Douglas Offerman

Basic CalPERS Rules for Employee Contributions and Cost Sharing

Mandatory Cost Sharing

Since the enactment of Public Employee Pension Reform Act (“PEPRA”) in 2013, a 50/50 share in normal cost contribution is set as the “standard contribution” for both employers and employees. See *Cal Gov Code § 20516.5 and § 7522.30*. Chapter 8 of the Public Employee Retirement Law (the “PERL”), *Cal Gov Code §§ 20671-20694*, retains specified rates of default contributions for various state and local employees (including Local Safety Members). However, *§20516.5* specifies that “notwithstanding any other provisions of this part (i.e. the PERL), a contracting agency or school district may require that its members pay at least 50 percent of the normal costs and that employers not pay any of the required employee contribution.” This requirement is subject to certain preliminary conditions including good faith bargaining and fact finding.

This standard for a 50/50 cost share is circumscribed by employee contribution rate caps of 8 percent for miscellaneous members hired prior to January 1, 2013 (“Classic Miscellaneous Members”) and 12 percent for safety members hired prior to January 1 2013 (“Classic Safety Members”). *Cal Gov Code § 20516.5* (There is also an 11 percent cap for safety members who are not police officers or firefighters). Thus, in any year where 50 percent of a normal contribution for Classic Members exceeds these caps the employer must pay the difference.

Both PEPRA and Classic members are subject to salary caps which limit the amount of salary that is pensionable in any given year. In 2020 the salary caps for PEPRA members are \$126,291 for members with social security coverage and \$151,549 for members without social security. The salary cap for all Classic members for 2020 is \$275,000. No salary paid above this limit accrues a liability for the payment of pensions and is not subject to assessment with respect to normal cost. The City currently has three PEPRA members subject to the contribution cap.

Optional Cost Sharing

Employer Cost Sharing

Cal Gov Code § 20691 permits an employer to pay some or all of the contributions otherwise payable by its employees who were hired prior to January 1, 2013 (i.e., “Classic Members”). This cost sharing is prohibited with respect to PEPRA Members. *Cal Gov Code §20691(b) and 7522.30*. It appears that the City may be paying a portion of the mandatory PEPRA member payments and also less than the permitted 50% share (up to a cap) of Classic Member payments. The relatively minor differences between PEPRA member contributions and the PEPRA mandated 50% share likely stem from *Gov Code § 7522.30 (d)* which limits increases in member contributions to changes in total normal cost exceeding one percent of payroll.

Employee Cost Sharing

Cal Gov Code Section 20516 permits the employer and employees to “agree in writing to share the costs of the employer contribution” and spells out the requirements for giving effect to such an agreement. There is no limit as to the share of the employer’s contribution (including the UAL payment).

Belvedere Contribution Rates FY 2020-2021

FY 2021	50% CalPERS Normal Cost as percent of payroll ¹	CalPERS “Formula Expected Contribution Rate” ¹	PERL 20516.5 Employee Contribution Caps	Belvedere Actual Contribution Rate ²
Classic Miscellaneous	8.696%	6.908%	8%	7%
Classic Safety	13.547	8.942%	12%	9%
PEPRA Miscellaneous	7.241	6.750%	None	6.75%
PEPRA Safety	13.022	13%	None	13%

1. CalPERS 2019 Valuation Report Setting Payments for 2021
2. City Staff

2020	50% CalPERS Normal Cost as percent of payroll ¹	CalPERS “Formula Expected Contribution Rate” ¹	PERL 20516.5 Employee Contribution Caps	Belvedere Actual Contribution Rate ²
Classic Miscellaneous	8.564%	6.908%	8%	7%
Classic Safety	12.788%	8.939%	12%	9%
PEPRA Miscellaneous	6.868%	6.750%	None	6.75%
PEPRA Safety	12.517%	12%	None	12%

1. CalPERS 2018 Valuation Report Setting Payments for 2020
2. Belvedere 2020 CAFR

Bob McCaskill 2/17/21

Use of a Section 115 Plan for OPEB Funding

The key differences between using a Section 115 Plan for OPEB funding vs. for pension funding include the following:

- Investment alternatives
- Financial reporting differences
- Potential to change the OPEB discount rate

Investment Alternatives

As previously indicated, PARS offers a Section 115 Combo Trust that can be used for additional funding of pension and OPEB liabilities. Thus, the investment alternatives and historical performance data are the same for both pension and OPEB funding.

However, CalPERS has a separate Section 115 Trust (the California Employers' Retiree Benefit Trust, or "CERBT") for OPEB funding. And the investment options in this trust are different from the two investment options in its CEPPT pension trust. It offers three investment options ("Strategy 1, 2 and 3") in its CERBT trust for OPEB funding. The target allocations for each of these three options are:

	<u>Strategy 1</u>	<u>Strategy 2</u>	<u>Strategy 3</u>
Global Equity	59%	40%	22%
Fixed Income	25%	43%	49%
TIPS	5%	5%	16%
REITs	8%	8%	8%
Commodities	3%	4%	5%

The following chart compares the historical returns for the above three CalPERS plans to that of the five different PARS investment alternatives as of 12/31/20:

<u>Strategy</u>	<u>% Equities</u>	<u>1 Year</u>	<u>5 Years</u>	<u>10 Years</u>
CalPERS:				
Strategy 1	59%	13.31%	9.95%	7.96%
Strategy 2	40%	12.21%	8.91%	n/a
Strategy 3	22%	10.70%	7.60%	n/a
PARS:				
Capital Appreciation	65-85%	14.50%	10.92%	9.15%
Balanced	50-70%	14.06%	9.90%	8.24%
Moderate	40-60%	12.92%	8.98%	7.49%
Moderately Conservative	20-40%	10.76%	7.12%	5.99%
Conservative	5-20%	9.03%	5.84%	4.75%

Financial Reporting Differences

GASB reporting guidelines do not allow for funds in a Section 115 pension trust to reduce the UAL reflected on the balance sheet.

However, GASB guidelines do allow for funds in a Section 115 OPEB trust to reduce the OPEB liability on the balance sheet. An example of a footnote disclosure for such an OPEB Section 115 plan is shown in the attachments.

Potential to Change the OPEB Discount Rate

The City provides certain post-employment health benefits to qualifying employees through a CalPERS plan. The benefits provided are at the minimum amount offered under the CalPERS retiree health plan, except for the benefits that have previously been given to two retired city managers (but are no longer available to any future city managers).

The City currently makes payments for its retiree OPEB benefits under the “pay-go” method. For all retirees other than the two retired city managers, the monthly payment is currently \$143/mo. per retiree.

The City’s financials at 6/30/20 reflect a total OPEB liability (measured as of 6/30/19) of \$1,312,304. The discount rate used to determine the amount of this liability is 3.5%. Per the footnotes in the financials, the amount of this liability would be reduced to \$1,158,491 if a discount rate of 4.5% were to be used.

Under GASB rules the discount rate used in determining the City's OPEB liability could be increased if we establish a Section 115 trust and establish a funding policy for that trust whereby we contribute the Actuarially Determined Contribution (ADC) each year. The higher rate would be the assumed discount rate of the asset allocation we selected with PARS/PERS/PFM/ etc. The effect on our balance sheet would take a full year to be realized, due to the one-year lag in measurement date vs. financial reporting date.

Attached Exhibits

1. Example footnote disclosure for a Section 115 OPEB trust (City of Commerce)
2. Information re: PARS Section 115 Combo Trust

CITY OF COMMERCE
Notes to the Basic Financial
Statements Year ended June 30, 2020

(9) Other Post-Employment Benefits (OPEB), (Continued)

inactive employees and beneficiaries. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Changes in the OPEB Liability

The changes in the net OPEB liability for the City are as follows:

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net position (b)	Net OPEB Liability (c) = (a) - (b)
Balance at: 6/30/2019	\$ 54,304,368	2,919,394	51,384,974
Changes recognized for the Measurement period:			
Service cost	2,029,528	-	2,029,528
Interest	2,386,306	-	2,386,306
Differences between Expected and Actual Experience	-	-	-
Changes of assumptions	5,977,722	-	5,977,722
Contributions - employer	-	1,679,352	(1,679,352)
Net investment income	-	168,198	(168,198)
Benefit payments	(1,676,840)	(1,676,840)	-
Administrative expense	-	(7,348)	7,348
Net Changes	8,716,716	163,362	8,553,354
Balance at: 6/30/2020	\$ 63,021,084	3,082,756	59,938,328

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability of the City as of the Measurement Date, calculated using the discount rate of 3.65 percent, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1 percentage-point lower (2.65 percent) or 1 percentage-point higher (4.65 percent) than the current rate, for measurement period ended June 30, 2019:

	1% Decrease (2.65%)	Current Discount Rate (3.65%)	1% Increase (4.65%)
Net OPEB Liability	\$ 71,092,381	59,938,328	51,085,584

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CITY OF BELVEDERE

PARS 115 Trust – OPEB Prefunding Program & Pension Rate Stabilization Program (PRSP)
February 4, 2021

CONTACTS



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Andrew Brown, CFA
Director, Senior Portfolio Manager
(415) 705-7605
andrew.brown@highmarkcapital.com

PARS TRUST TEAM

Trust Administrator & Consultant



- Recordkeeping
- Sub-trust accounting
- Monitors plan compliance
- Processes contributions/disbursements
- Hands-on, dedicated support teams
- Coordinates all agency services

37

Years of Experience
(1984-2021)

1,500+

Plans under
Administration

1,000+

Public Agency
Clients

500 K+

Plan Participants

\$5.1B

Assets under
Administration

Trustee



- 5th largest commercial bank and one of the nation's largest trustees for Section 115 trusts
- Safeguards plan assets
- Oversight protection as plan fiduciary
- Custodian of assets

158

Years of Experience
(1863-2021)

\$5.0T

Assets under
Administration

Investment Manager



- Investment sub-advisor to trustee, U.S. Bank
- Investment policy assistance
- Uses open architecture
- Active and passive platform options
- Customized portfolios (with minimum asset level)

102

Years of Experience
(1919-2021)

\$18.2B

Assets under
Management

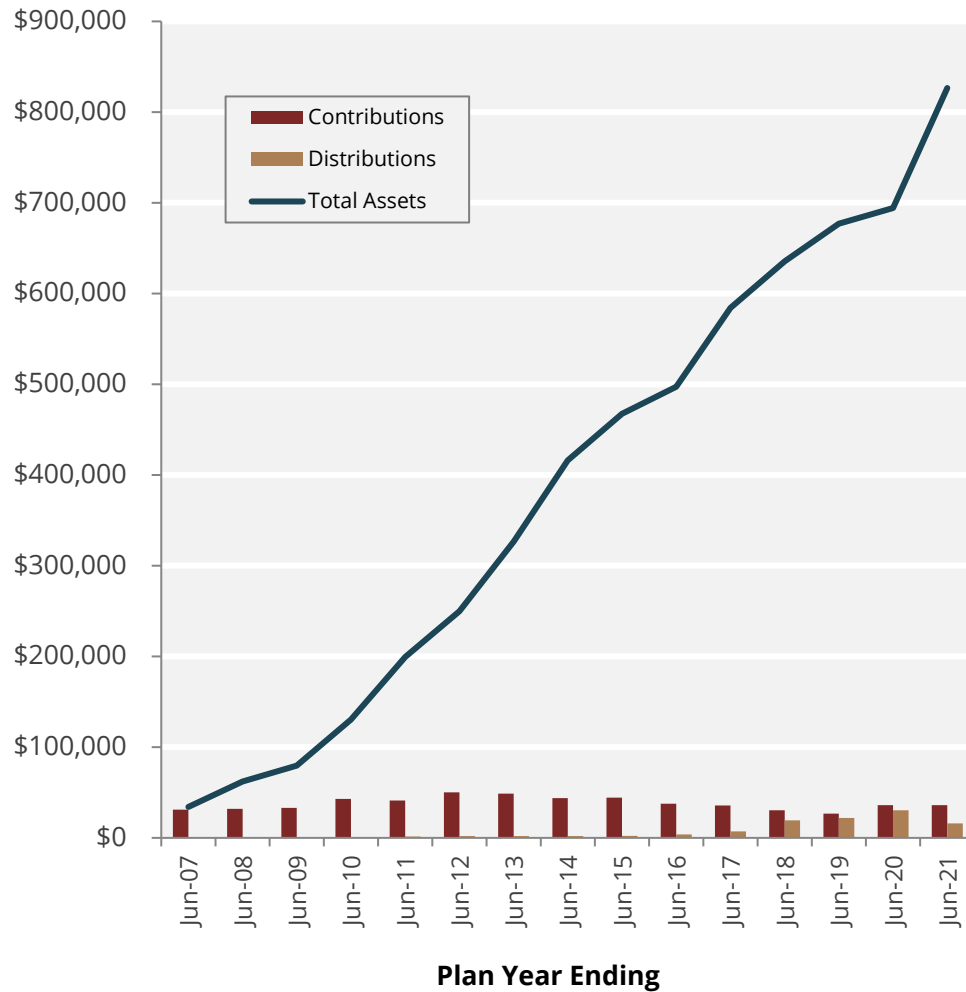


SUMMARY OF AGENCY'S PLAN

Plan Effective Date:	July 1, 2006
Type of Plan:	401(a) Tax-Qualified Defined Benefit 415(m) Excess Benefit
Benefit Level:	Miscellaneous: 2.5% at 55 (Tier I) Safety: 3.0% at 55 (Tier II)
Eligibility:	Miscellaneous and Safety Employees 55 Years of Age, 15 Years of Service Hired on or before December 31, 2012

SUMMARY OF AGENCY'S PLAN (QUALIFIED & EXS)

CONTRIBUTIONS, DISTRIBUTIONS, AND TOTAL ASSETS AS OF DECEMBER 31, 2021:

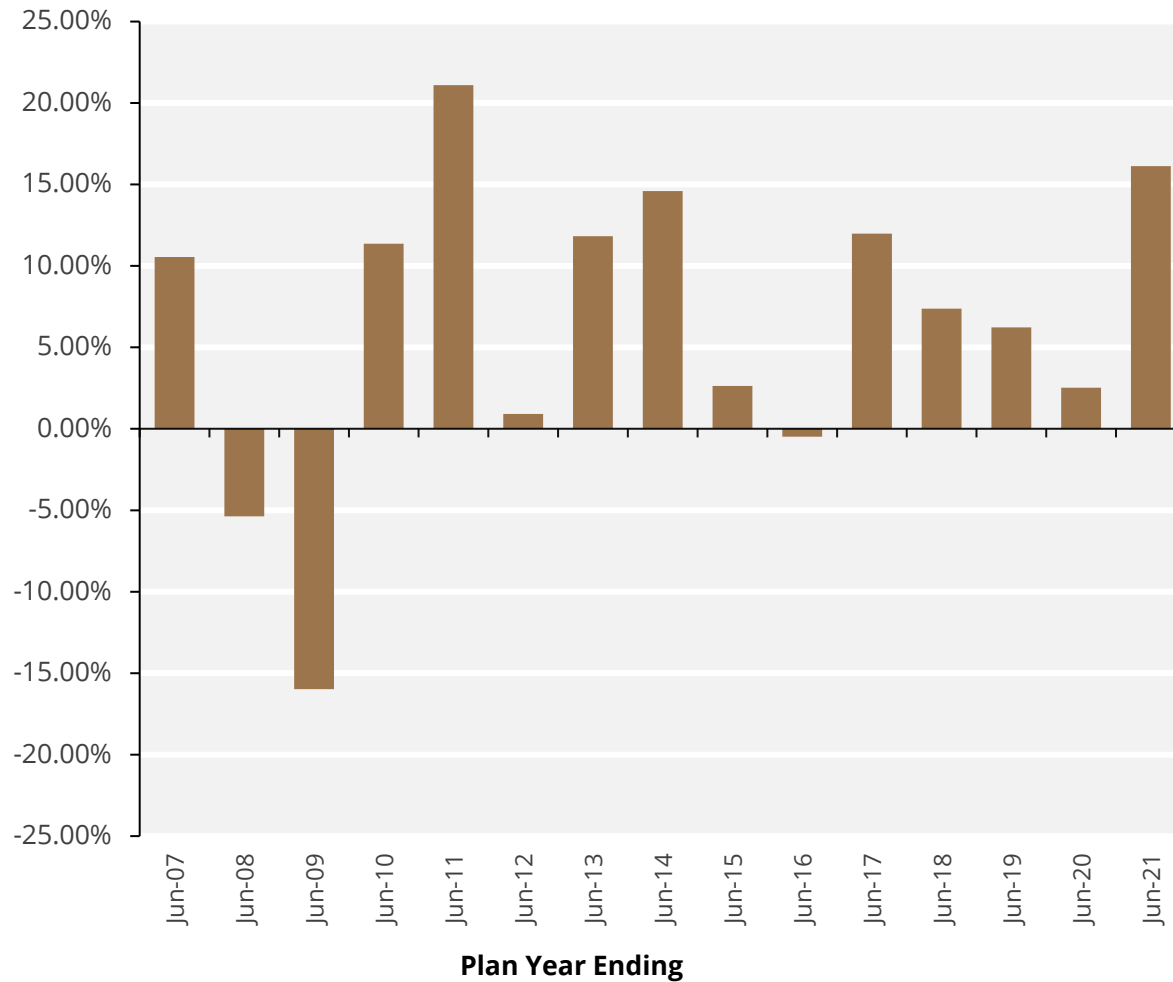


Year	Contributions	Distributions	Total Assets
Jun-07 *	\$31,000	\$0	\$33,987
Jun-08	\$32,000	\$0	\$62,173
Jun-09	\$33,000	\$0	\$79,629
Jun-10	\$42,940	\$0	\$130,327
Jun-11	\$41,136	\$1,450	\$199,266
Jun-12	\$50,190	\$1,963	\$249,725
Jun-13	\$48,723	\$2,002	\$326,423
Jun-14	\$43,728	\$2,042	\$416,073
Jun-15	\$44,266	\$2,083	\$467,468
Jun-16	\$37,621	\$3,686	\$497,299
Jun-17	\$35,733	\$7,074	\$584,240
Jun-18	\$30,305	\$19,173	\$635,541
Jun-19	\$26,737	\$21,829	\$676,893
Jun-20	\$36,042	\$30,420	\$694,265
Jun-21 **	\$36,042	\$15,953	\$826,503

*Plan Year Ending June 2007 is based on 10 months of activity since September 30, 2006.
 **Plan Year Ending June 2021 is based on 6 months of activity through December 31, 2021.

SUMMARY OF AGENCY'S PLAN (QUALIFIED & EXS)

PLAN RETURNS AS OF DECEMBER 31, 2021:



Year	Returns
Jun-07 *	10.54%
Jun-08	-5.37%
Jun-09	-15.97%
Jun-10	11.36%
Jun-11	21.09%
Jun-12	0.91%
Jun-13	11.83%
Jun-14	14.59%
Jun-15	2.63%
Jun-16	-0.49%
Jun-17	11.98%
Jun-18	7.37%
Jun-19	6.23%
Jun-20	2.52%
Jun-21 **	16.12%

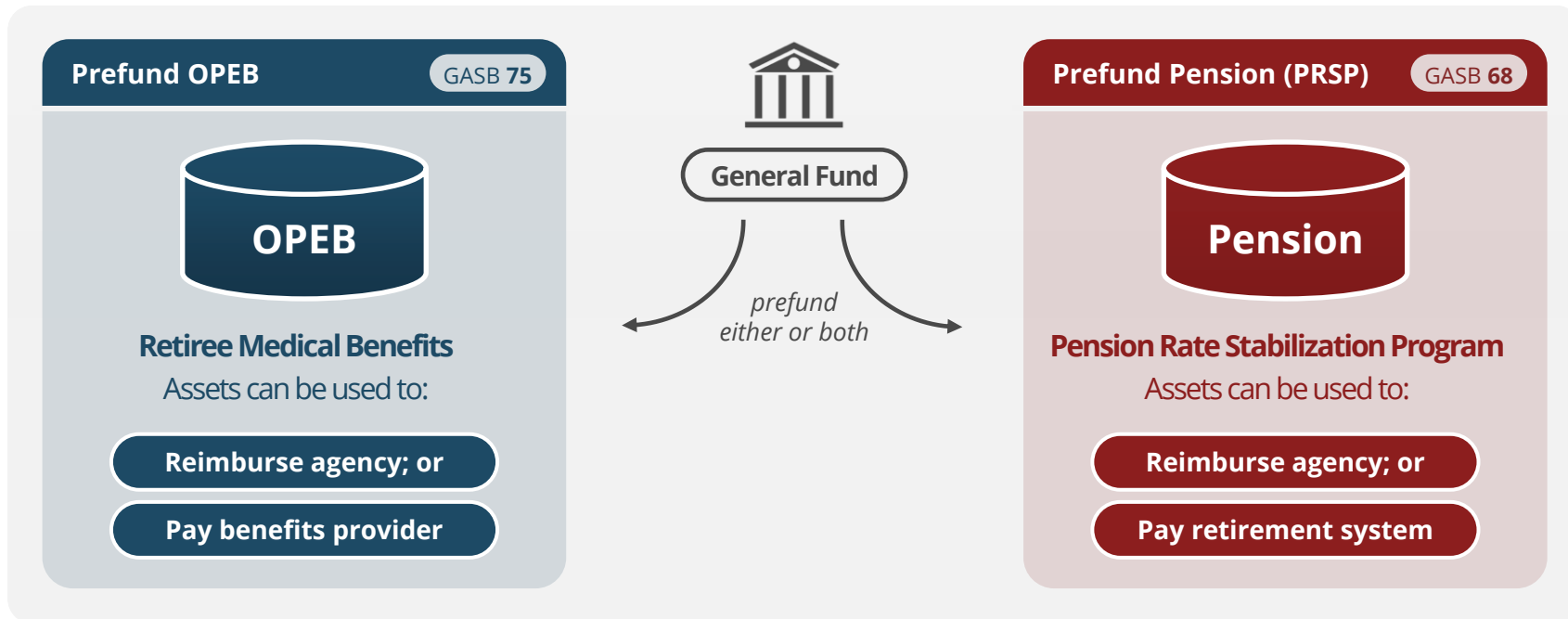
*Plan Year Ending June 2007 is based on 10 months of activity since September 30, 2006.
 **Plan Year Ending June 2021 is based on 6 months of activity through December 31, 2021.

The

PARS 115 COMBO TRUST

for prefunding pension and OPEB obligations

PARS IRS-APPROVED SECTION 115 TRUST



Subaccounts
 OPEB and Pension assets are individually sub-accounted, and can be divided by dept., bargaining group, or cost center

Financial Stability
 Assets in the PARS Section 115 Combination Trust can be used to address unfunded liabilities.

Flexible Investing
 Allows separate investment strategies for OPEB and Pension subaccounts.

Anytime Access
 Trust funds are available anytime; OPEB for OPEB and Pension for Pension.

Economies-of-Scale
 OPEB and Pension assets aggregate and reach lower fees on tiered schedule sooner – saving money!

No Set Up Cost or Minimums
 No set-up costs, no minimum annual contribution amounts, and no fees until assets are added.

115 TRUST – OPEB/PENSION CLIENT LIST

Updated February 2021

CITIES & TOWNS (131)

Alameda	Elk Grove	Mammoth Lakes
Alhambra	Emeryville	Manhattan Beach
Anaheim	Escondido	Merced
Atherton	Fairfax	Monrovia
Atwater	Fairfield	Morgan Hill
Bakersfield	Fountain Valley	Napa
Bell Gardens	Fullerton	National City
Benicia	Galt	Norwalk
Beverly Hills	Garden Grove	Novato
Brea	Gilroy	Oakley
Brisbane	Glendale	Orinda
Burlingame	Goleta	Oroville
Camarillo	Grass Valley	Pacifica
Capitola	Half Moon Bay	Palmdale
Chino Hills	Healdsburg	Palo Alto
Colma	Hemet	Pasadena
Commerce	Hercules	Perris
Corcoran	Hermosa Beach	Pico Rivera
Coronado	Huntington Beach	Piedmont
Costa Mesa	Indian Wells	Pinole
Covina	Indio	Pittsburg
Crescent City	La Habra	Placentia
Cudahy	La Mesa	Pleasanton
Cupertino	La Quinta	Port Hueneme
Cypress	La Verne	Rancho Cucamonga
Daly City	Laguna Niguel	Redding
Del Rey Oaks	Lake Forest	Redwood City
Dinuba	Lakewood	Rialto
Duarte	Lemon Grove	Richmond
Dublin	Livermore	Riverside
El Cajon	Lodi	Rohnert Park
El Centro	Los Alamitos	Rolling Hills
El Segundo	Los Altos Hills	Rosemead

COUNTIES (30)

Ross	Alpine
Salinas	Amador
San Anselmo	Calaveras
San Leandro	Colusa
San Ramon	Contra Costa
Santa Ana	Humboldt
Santa Clara	Imperial
Santa Clarita	Inyo
Sausalito	Kern
Selma	Kings
Solana Beach	Lake
Stanton	Lassen
Stockton	Mariposa
Taft	Merced
Temecula	Mono
Temple City	Napa
Thousand Oaks	Nevada
Tiburon	Placer
Tustin	Plumas
Union City	Riverside
Upland	San Benito
Vallejo	Shasta
Villa Park	Siskiyou
West Covina	Solano
West Sacramento	Sonoma
Westminster	Sutter
Winters	Trinity
Woodland	Tulare
Woodside	Yolo
Yountville	Yuba
Yuba City	
Yucca Valley	

115 TRUST – OPEB/PENSION CLIENT LIST

Updated February 2021

SPECIAL DISTRICTS (103)

Agoura Hills/Calabasas Community Center Authority
 Alameda County Mosquito Abatement District
 Beach Cities Health District
 Bighorn-Desert View Water Agency
 Bodega Bay Public Utilities District
 Calaveras County Water District
 California Joint Powers Insurance Authority
 California Joint Powers Risk Management Authority
 Central Contra Costa Sanitary District
 Central Contra Costa Transit Authority
 Coastside Fire Protection District
 Conejo Recreation & Park District
 Contra Costa County EEs' Retirement Association
 Contra Costa Mosquito and Vector Control District
 Crestline Village Water District
 Delta Diablo
 Desert Recreation District
 East Bay Regional Park District
 East Contra Costa Fire Protection District
 East Orange County Water District
 Eastern Sierra Community Services District
 Eastern Sierra Transit Authority
 El Dorado Hills County Water (& Fire) District
 Fallbrook Public Utility District
 Fresno Irrigation District
 Fresno Metropolitan Flood Control District
 Glenn-Colusa Irrigation District
 Goleta Cemetery District
 Goleta West Sanitary District
 Great Basin Unified Air Pollution Control District
 Greater Vallejo Recreation District
 Hayward Area Recreation & Park District
 Hesperia Fire Protection District
 Housing Authority of the County of Butte
 Housing Authority of the County of Contra Costa
 Housing Authority of the County of San Bernardino

Housing Authority of the County of Santa Cruz
 Humboldt Bay Fire Joint Powers Authority
 Humboldt Bay Municipal Water District
 Humboldt No. 1 Fire Protection District
 Menlo Park Fire Protection District
 Mesa Water District
 Metropolitan Transportation Commission
 Midpeninsula Regional Open Space District
 Mid-Peninsula Water District
 Mojave Desert Air Quality Management District
 Montecito Fire Protection District
 Monterey Bay Unified Air Pollution Control District
 Moraga-Orinda Fire Protection District
 Mosquito & Vector Mgmt Dist. of Santa Barbara Co.
 Municipal Pooling Authority
 Municipal Water District of Orange County
 Napa County Mosquito Abatement District
 Nevada County Consolidated Fire District
 North Central Fire Protection District
 Northern Salinas Valley Mosquito Abatement District
 Novato Sanitary District
 Orange County Fire Authority
 Orange County Mosquito and Vector Control District
 Orange County Water District
 Orchard Dale Water District
 Public Agency Risk Sharing Authority of CA (PARSAC)
 Pebble Beach Community Services District
 Placentia Library District
 Placer County Air Pollution Control District
 Placer County Resource Conservation District
 Rancho Cucamonga Fire Protection District
 Rancho Murieta Community Services District
 Rowland Water District
 Sacramento Area Flood Control Agency
 San Andreas Sanitary District
 San Elijo Joint Powers Authority

San Mateo County Mosquito & Vector Control District
 Santa Barbara County Law Library
 Santa Cruz Regional 9-1-1 JPA
 Sewer Authority Mid-Coastside
 Shasta Valley Cemetery District
 South Coast Water District
 South Montebello Irrigation District
 South Orange County Wastewater Authority
 South Placer Fire Protection District
 Southern Marin Fire Protection District
 State Water Contractors
 Superior Court of CA, County of Imperial
 Superior Court of CA, County of Inyo
 Superior Court of CA, County of Kern
 Superior Court of CA, County of Marin
 Superior Court of CA, County of Merced
 Superior Court of CA, County of Orange
 Superior Court of CA, County of San Mateo
 Superior Court of CA, County of Shasta
 Superior Court of CA, County of Siskiyou
 Superior Court of CA, County of Sonoma
 Sweetwater Springs Water District
 Three Valleys Municipal Water District
 Twentynine Palms Water District
 Ventura Regional Sanitation District
 Walnut Valley Water District
 West Bay Sanitary District
 West County Wastewater District
 Western Riverside Council of Governments
 Yorba Linda Water District
 Zone 7 Water Agency

EDUCATION DISTRICTS (2)

Sonoma County Office of Education
 Intelcom

115 TRUST – OPEB/PENSION CLIENT LIST

Updated February 2021

SCHOOL DISTRICTS (50)

Alisal Union School District
 Alta Loma School District
 Auburn Union School District
 Bass Lake Joint Union Elementary School District
 Bellflower Unified School District
 Beverly Hills Unified School District
 Calistoga Joint Unified School District
 Campbell Union High School District
 Compton Unified School District
 Corning Union Elementary School District
 Coronado Unified School District
 Cotati-Rohnert Park Unified School District
 El Dorado Union High School District
 El Monte Union High School District
 Folsom Cordova Unified School District
 Fontana Unified School District
 Fowler Unified School District
 Hermosa Beach City School District
 Hesperia Unified School District
 John Swett Unified School District
 Lakeside Union School District (San Diego)
 Lemon Grove School District
 Lindsay Unified School District
 Madera Unified School District
 Manteca Unified School District
 Moreno Valley Unified School District
 Napa Valley Unified School District
 Natomas Unified School District
 Newport-Mesa Unified School District
 Ocean View School District (Ventura)
 Ontario-Montclair School District

Orcutt Union School District
 Palmdale School District
 Placer Union High School District
 Porterville Unified School District
 Poway Unified School District
 Red Bluff Joint Union High School District
 Red Bluff Union Elementary School District
 River Delta Unified School District
 Riverdale Joint Unified School District
 San Bruno Park School District
 San Dieguito Union High School District
 San Marino Unified School District
 Santa Barbara Unified School District
 Santa Rita Union School District
 Trona Joint Unified School District
 Visalia Unified School District
 Westside Union School District
 Whittier City School District
 Wilsona School District

COMMUNITY COLLEGE DISTRICTS (16)

Citrus CCD	Rancho Santiago CCD
Coast CCD	Rio Hondo CCD
Grossmont-Cuyamaca CCD	San Bernardino CCD
Hartnell CCD	San Luis Obispo County CCD (Cuesta)
Imperial CCD	State Center CCD
Marin CCD	Victor Valley CCD
Palo Verde CCD	West Valley-Mission CCD
Pasadena Area CCD	Yosemite CCD

OPEB ACTUARIAL RESULTS

2020 GASB 75 Report Valuation Date: June 30, 2019	Pay-as-you-Go Discount Rate: 3.50	Percent Change	Prefunding Discount Rate: 6.50%
Total OPEB Liability (TOL)	\$1,312,304	30-36% ▼	?
Fiduciary Net Position	\$0	--	\$0
Net OPEB Liability (NOL)	\$1,312,304	30-36% ▼	?
Service Cost for FY 2019-20	\$61,217	30-36% ▼	?
Annual Benefit Payments (Pay-as-you-Go) for FY 2019-20	\$44,000	--	\$44,000

Rule of thumb: For every one percent increase in the discount rate, the unfunded liability is lowered by 10-12%.

WHY PREFUND OPEB OBLIGATIONS?

- Greater expected rate of return (discount rate) which lowers your liabilities
- Contributions into trust are “assets” that offset liabilities on financial statements
- GASB 68 – Pension liabilities listed as line item on Balance Sheet in 2015
GASB 75 – OPEB liabilities listed as line item on Balance sheet in 2018
- GFOA recommends prefunding OPEB and considers it “best practice” (January 2012)
- Credit rating companies look more favorably on agencies who adopt an Irrevocable Trust and prefund
 - At least 4 agencies have improved credit rating
 - Higher credit rating means lower borrowing costs
- OPEB assets are accessible for OPEB expenses at any time
- Prefunding has no downside other than market fluctuation (similar to pension)

KEY PROGRAM ADVANTAGES

	PARS	CERBT
1. No minimum annual contributions/fees	✓	✓
2. No fees charged until assets are in the trust	✓	✓
3. No start-up costs or trading fees	✓	✓
4. Reimbursement of OPEB expenses	2 years	Current year only
5. Combination trust for OPEB and Pension. OPEB and Pension assets are aggregated for economies of scale and low ongoing fees	✓	Not available; two trusts
6. IRS-approved combination trust structure for your protection	✓	Not available; two trusts
7. Termination fees or restrictions	30 days notice	150 days notice; CalPERS board approval
8. Active/passive diversified investment options	5 active, 5 passive + custom option ¹	3 portfolios; no customization or choice of active/passive
9. Historical return information over 10 years; NET of all fees (through 12/31/20)	8.55%	7.96%
10. Dedicated Portfolio Manager (investment assistance; cell phone access; on-site reviews)	✓	Not available

¹Available based on asset size

NET PERFORMANCE FEE ANALYSIS

As of December 31, 2020

Over 1 Year		Over 3 Years		Over 5 Years		Over 10 Years	
PARS/HIGHMARK		PARS/HIGHMARK		PARS/HIGHMARK		PARS/HIGHMARK	
Capital Appreciation (24% Fixed Income)	14.50%	Capital Appreciation (24% Fixed Income)	9.76%	Capital Appreciation (24% Fixed Income)	10.92%	Capital Appreciation (24% Fixed Income)	9.15%
minus weighted PARS administration fee	(-) 0.25%	minus weighted PARS administration fee	(-) 0.25%	minus weighted PARS administration fee	(-) 0.25%	minus weighted PARS administration fee	(-) 0.25%
minus weighted HighMark investment management fee	(-) 0.35%	minus weighted HighMark investment management fee	(-) 0.35%	minus weighted HighMark investment management fee	(-) 0.35%	minus weighted HighMark investment management fee	(-) 0.35%
1-Year Net Return	13.90%	3-Year Net Return	9.16%	5-Year Net Return	10.32%	10-Year Net Return	8.55%

CALPERS CERBT		CALPERS CERBT		CALPERS CERBT		CALPERS CERBT	
Strategy 1 (25% Fixed Income)	13.40%	Strategy 1 (25% Fixed Income)	8.71%	Strategy 1 (25% Fixed Income)	10.04%	Strategy 1 (25% Fixed Income)	8.06%
minus fees	(-) 0.10%	minus fees	(-) 0.10%	minus fees	(-) 0.10%	minus fees	(-) 0.10%
1-Year Net Return	13.31%	3-Year Net Return	8.62%	5-Year Net Return	9.95%	10-Year Net Return	7.96%

* Subject to change due to rebalancing; fees are based on assets under \$5 million.
Past performance does not guarantee future results.

PROGRAM FEES

As of December 31, 2020

Trust Administration/Consulting Fees*



Plan Set-Up Fee:

None

Ongoing Fees:

0.25%	for assets \$0-10 million
0.20%	for assets \$10-15 million
0.15%	for assets \$15-50 million
0.10%	for assets over \$50 million

Discretionary Trustee/Investment Management Fees**



Plan Set-Up Fee:

None

Ongoing Fees:

0.35%	for assets under \$5 million
0.25%	for assets \$5-10 million
0.20%	for assets \$10-15 million
0.15%	for assets \$15-50 million
0.10%	for assets over \$50 million

* PARS does not receive any compensation from the investments or any commissions, back-end loads, or any other forms of compensation.

** Subject to change due to rebalancing, as fees are waived for plan assets in First American Funds (money market)

The

PARS PENSION RATE STABILIZATION PROGRAM

for prefunding pension obligations

BACKGROUND – PENSION

- Since 2015, GASB 68 has required disclosing Net Pension Liability on financial statements as a line item on the balance sheet
- Before the concept of pension prefunding, the only way to reduce retirement system unfunded liabilities was to send additional contributions in excess of annual required employer contributions
- Pension trust prefunding assets can be transferred to the retirement system at the Agency's direction, which can help offset future rate increases (i.e., pension rate stabilization).

CalPERS Changes

CalPERS has announced changes directly affecting unfunded liability amounts and employer contributions:

Lowered Discount Rate ¹

7.5%
▼
7.0%

CalPERS has lowered the discount rate from 7.5% to 7.0% with a 3-year phase-in (in effect as of FY 2020-21)

¹ 5-year ramp up in payments beginning FY 15-16 with full impact in FY 19/20.

Shortened Amortization Period ²

30 years
▼
20 years

New actuarial liabilities are amortized over 20 years instead of 30, increasing required annual employer contribution amounts*

² Contributions from policy changes beginning FY 21-22.

PENSION FUNDING STATUS

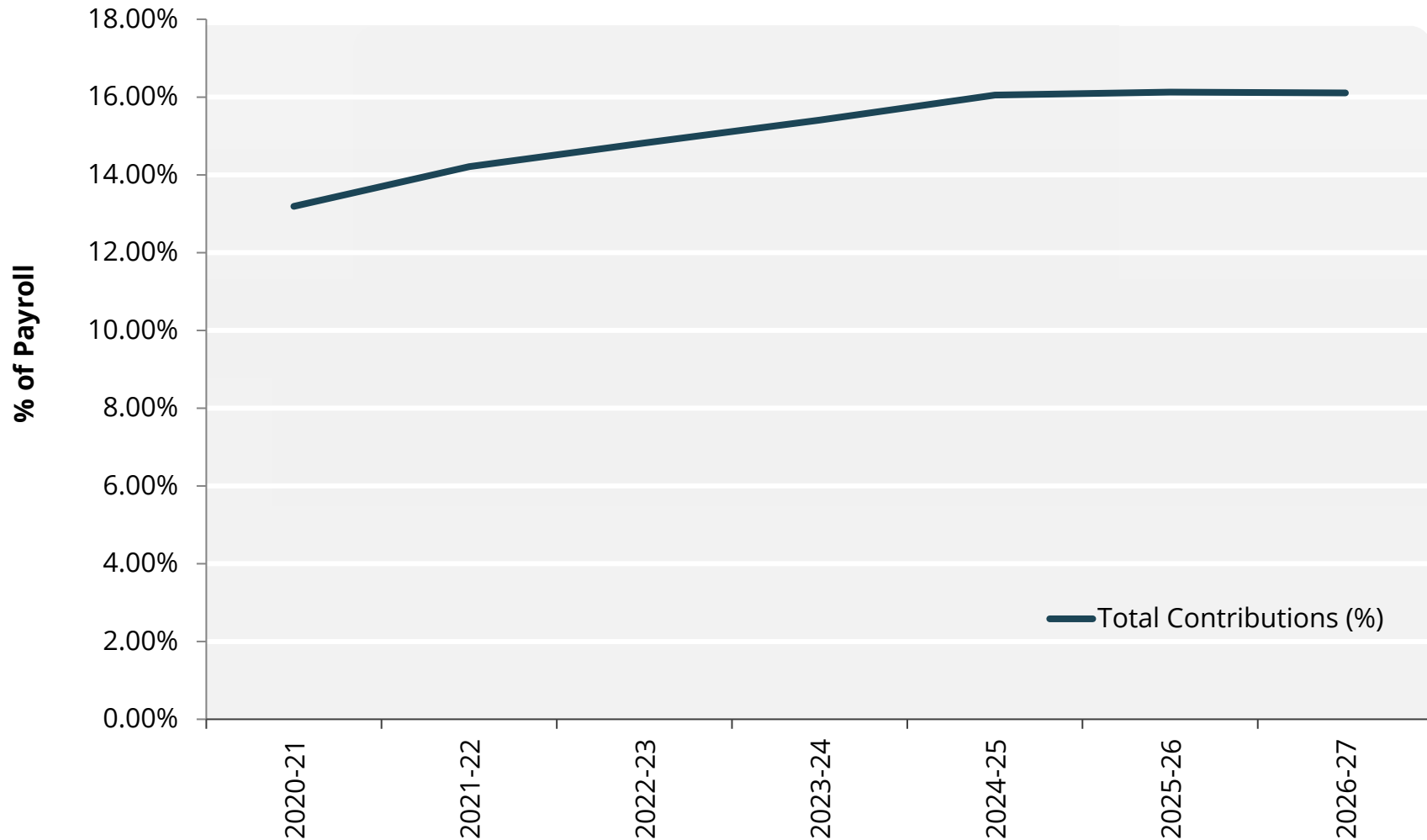
As of June 30, 2019, City of Belvedere's CalPERS pension plan is funded as follows:

Combined Miscellaneous & Safety Groups *	Valuation as of June 30, 2018	Valuation as of June 30, 2019	Change
Actuarial Liability	\$22.1 M	\$23.9 M	8.2% ↑
Assets	\$20.8 M	\$22.3 M	7.4% ↑
Unfunded Liability	\$1.3 M	\$1.6 M	20.5% ↑
Funded Ratio	94.1%	93.4%	0.7% ↓
Employer Contribution Amount	\$0.3 M (FY 19-20)	\$0.4 M (FY 20-21)	14.1% ↑
Employer Contribution Amount (FY 26-27)	---	\$0.5 M	25.9% ↑

* Data through 2026-27 from Agency's latest CalPERS actuarial valuation.

PROJECTED EMPLOYER CONTRIBUTIONS (MISC.)

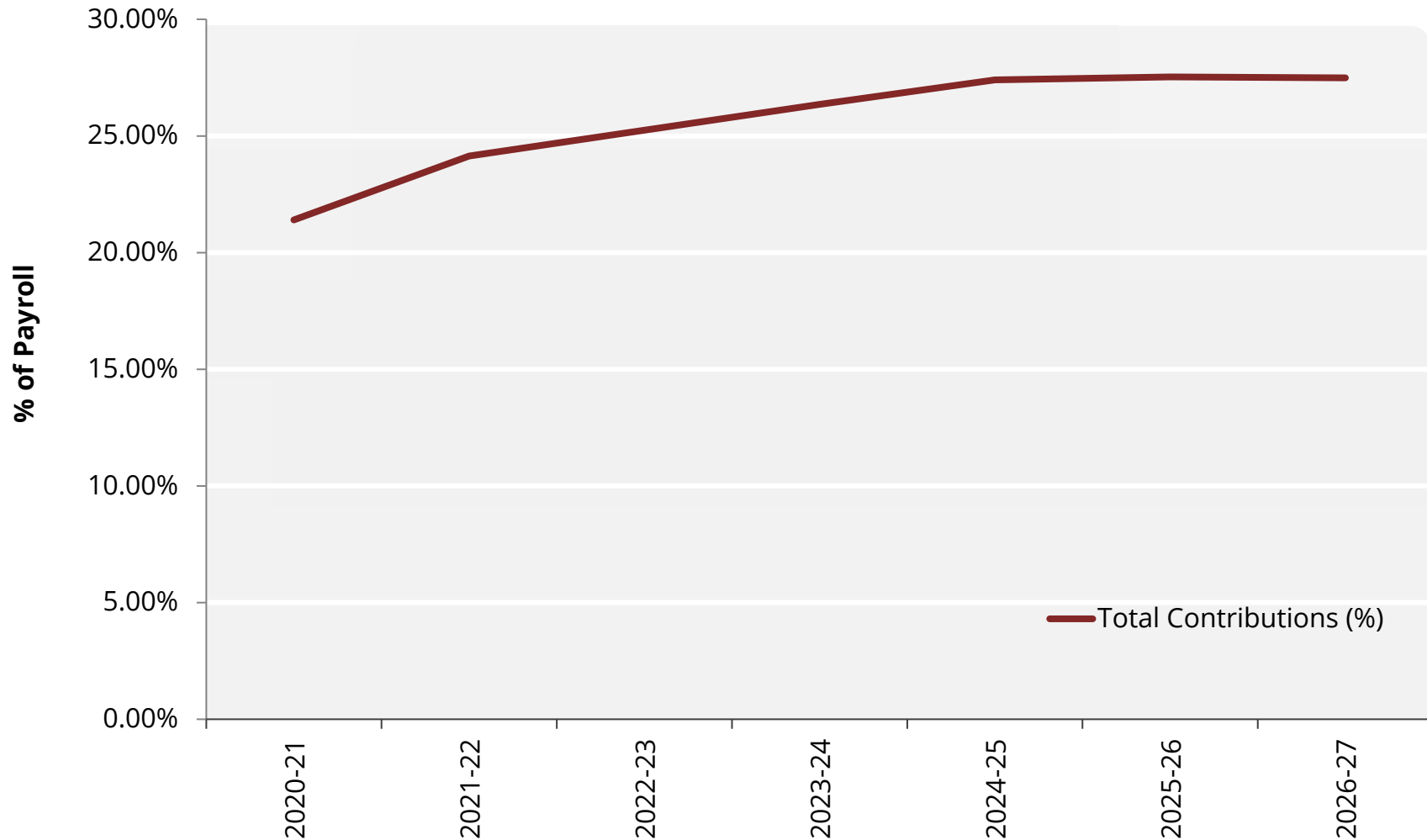
Projected misc. contributions increase from \$196K to \$275K* (39.9% ↑)



* Data through 2026-27 from Agency's latest CalPERS actuarial valuation.

PROJECTED EMPLOYER CONTRIBUTIONS (SAFETY)

Projected safety contributions increase from \$187K to \$207K* (11.2% ↑)



* Data through 2026-27 from Agency's latest CalPERS actuarial valuation.

PARS CLIENT LIST – PRSP (231)

Updated February 2021

CITIES & TOWNS (111)

Alameda	Costa Mesa	Fullerton	Lake Forest	Palo Alto	San Ramon	Villa Park	Alpine	Sutter
Anaheim	Cudahy	Garden Grove	Lemon Grove	Pasadena	Sanger	West Covina	Calaveras	Tulare
Atherton	Cupertino	Gilroy	Lodi	Perris	Santa Ana	West Sacramento	Colusa	Yolo
Atwater	Cypress	Glendale	Los Alamitos	Pico Rivera	Santa Clara	Westminster	Humboldt	Yuba
Bell Gardens	Daly City	Goleta	Los Altos Hills	Piedmont	Sausalito	Woodland	Kings	
Benicia	Del Rey Oaks	Grass Valley	Manhattan Beach	Pinole	Selma	Woodside	Lake	
Beverly Hills	Dinuba	Half Moon Bay	Merced	Pittsburg	Solana Beach	Yountville	Lassen	
Brea	Duarte	Healdsburg	Monrovia	Placentia	Stanton	Yuba City	Mariposa	
Brisbane	Dublin	Hercules	Morgan Hill	Pleasanton	Stockton	Yucca Valley	Merced	
Burlingame	El Cajon	Huntington Beach	Napa	Port Hueneme	Taft		Napa	
Camarillo	El Centro	Indian Wells	National City	Rancho Cucamonga	Temecula		Nevada	
Capitola	El Segundo	Indio	Norwalk	Redwood City	Thousand Oaks		Placer	
Chino Hills	Emeryville	La Habra	Novato	Riverside	Tiburon		Plumas	
Colma	Escondido	La Mesa	Oakley	Rohnert Park	Tustin		Riverside	
Commerce	Fairfax	La Quinta	Oroville	Rolling Hills	Union City		San Benito	
Corcoran	Fairfield	La Verne	Pacifica	Ross	Upland		Siskiyou	
Coronado	Fountain Valley	Laguna Niguel	Palmdale	San Anselmo	Vallejo		Solano	

COUNTIES (21)

EDUCATION DISTRICTS (41)

Citrus CCD	Rancho Santiago CCD	Yosemite CCD	Corning Union ESD	Lakeside Union SD	Placer Union HSD
Coast CCD	Rio Hondo CCD	Alisal Union SD	Coronado USD	Lemon Grove SD	Porterville USD
Grossmont-Cuyamaca CCD	San Bernardino CCD	Alta Loma USD	Cotati-Rohnert Park USD	Lindsay USD	River Delta USD
Hartnell CCD	San Luis Obispo County CCD	Bass Lake Joint Union ESD	El Monte Union HSD	Madera Unified SD	San Marino USD
Imperial CCD	(Cuesta College)	Beverly Hills USD	Fontana USD	Natomas USD	Santa Rita Union SD
Marin CCD	Victor Valley CCD	Calistoga Joint USD	Hermosa Beach City SD	Ocean View SD	Visalia USD
Pasadena CCD	West Valley-Mission CCD	Campbell Union HSD	Hesperia Unified SD	Ontario-Montclair SD	Whittier City SD

SPECIAL DISTRICTS (58)

Agoura Hills/Calabasas Community Center JPA	Hesperia Fire Protection District	Municipal Pooling Authority	San Mateo Mosquito and Vector Control District
Alameda County Mosquito Abatement District	Housing Authority of the County of Butte	Municipal Water District of Orange County	Shasta Valley Cemetery District
Beach Cities Health District	Housing Authority of the County of San Bernardino	Napa County Mosquito Abatement District	South Coast Water District
Bighorn-Desert View Water Agency	Housing Authority of the County of Santa Cruz	Nevada County Consolidated Fire Department	Southern Marin Fire Protection District
Central Contra Costa Sanitary District	Humboldt Bay Municipal Water District	North Central Fire District	Superior Court of CA, County of Inyo
Conejo Recreation & Park District	Mesa Water District	Novato Sanitary District	Superior Court of CA, County of Kern
Delta Diablo (Sanitation District)	Metropolitan Transportation Commission	Orange County Fire Authority	Sweetwater Springs Water District
East Bay Regional Park District	Midpeninsula Regional Open Space District	Orange County Mosquito & Vector District	Three Valleys Municipal Water District
East Contra Costa Fire Protection District	Midpeninsula Water District	Orchard Dale Water District	Twentynine Palms Water District
East Orange County Water District	Mojave Desert Air Quality Management District	Pebble Beach Community Services District	West Bay Sanitary District
El Dorado Hills County Water District	Montecito Fire Protection District	Placer County Air Pollution Control District	Western Riverside Council of Governments
Fallbrook Public Utility District	Monterey Bay Unified Air Pollution Control District	Public Agency Risk Sharing Authority of CA	Yorba Linda Water District
Goleta West Sanitary District	Monterey County Mosquito Abatement District	Rancho Cucamonga Fire Protection Department	Zone 7 Water Agency
Great Basin Unified Air Pollution Control District	Moraga-Orinda Fire Protection District	Sacramento Area Flood Control Agency	
Greater Vallejo Recreation District	Mosquito & Vector Mgmt Dist. of Santa Barbara Co.	San Elijo Joint Powers Authority	

WHY PREFUND PENSION OBLIGATIONS?

1. Complete Local Control over Assets

Agency has complete control over assets, including contributions, disbursements and the timing, amount, and risk tolerance level of investments

2. Pension Rate Stabilization

Assets can be transferred to the retirement system at the Agency's direction, potentially reducing/eliminating large fluctuations in employer contribution amounts

3. Rainy Day Fund

Emergency source of funds when employer revenues are strained in difficult budgetary or economic times

4. Diversified Investing

The PARS Trust allows for investment flexibility and offers the potential for assets to earn greater returns than the general fund

INVESTMENT FLEXIBILITY

- Agency maintains oversight of the investment manager and the portfolio's risk tolerance level
- Investment restrictions that apply to the general fund (CA Government Code 53601) are not applicable to assets held in The PARS Section 115 Irrevocable Trust
- Assets held in The PARS Section 115 Irrevocable Trust can be invested per Government Code Sections 53216 (Pension) and 53620 (OPEB)
- Investments can be diversified and invested in a prudent fashion
- Investments can be tailored to the Agency's unique demographics and needs
- Increased risk diversification



Diversified Investing

Assets held in The PARS Section 115 Irrevocable Trust can be diversely invested in a prudent fashion per Government Code Sections 53216 (Pension) and 53620 (OPEB).

GOV § 53216 (Pension)

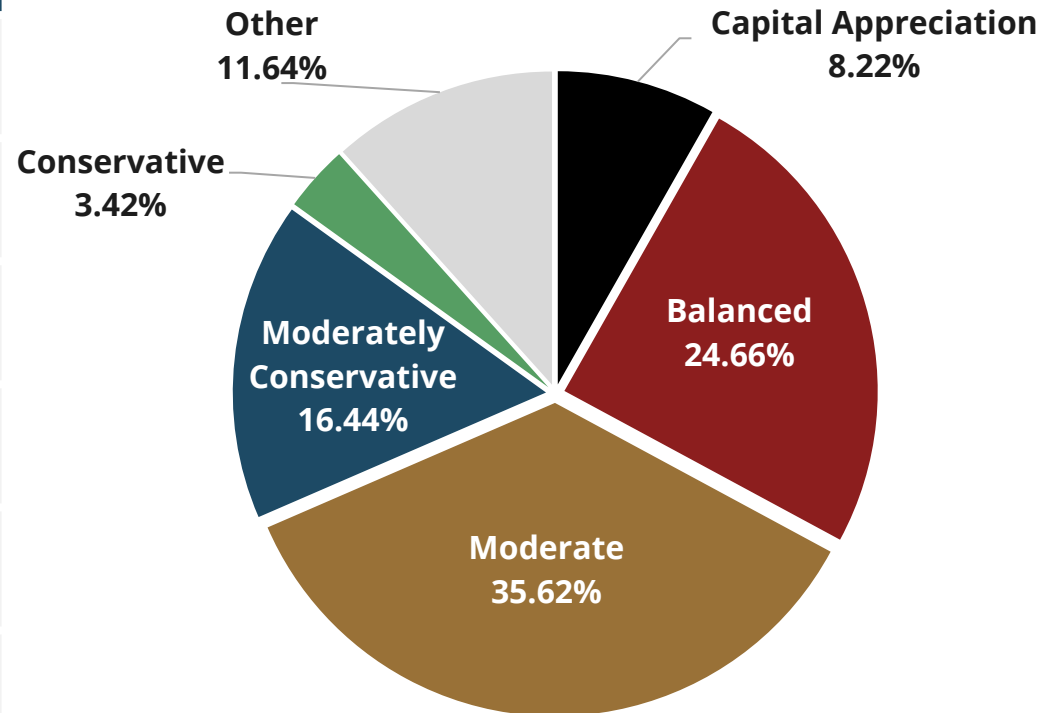
GOV § 53620 (OPEB)

OPEB STRATEGY ALLOCATION – CLIENTS

As of December 31, 2020

HIGHMARK CAPITAL MANAGEMENT

Strategy	Allocation (%)
Capital Appreciation (65-85% Equity)	8.22%
Balanced (50-70% Equity)	24.66%
Moderate (40-60% Equity)	35.62%
Mod. Conservative (20-40% Equity)	16.44%
Conservative (5-20% Equity)	3.42%
Other (Custom)	11.64%
TOTAL	100.00%



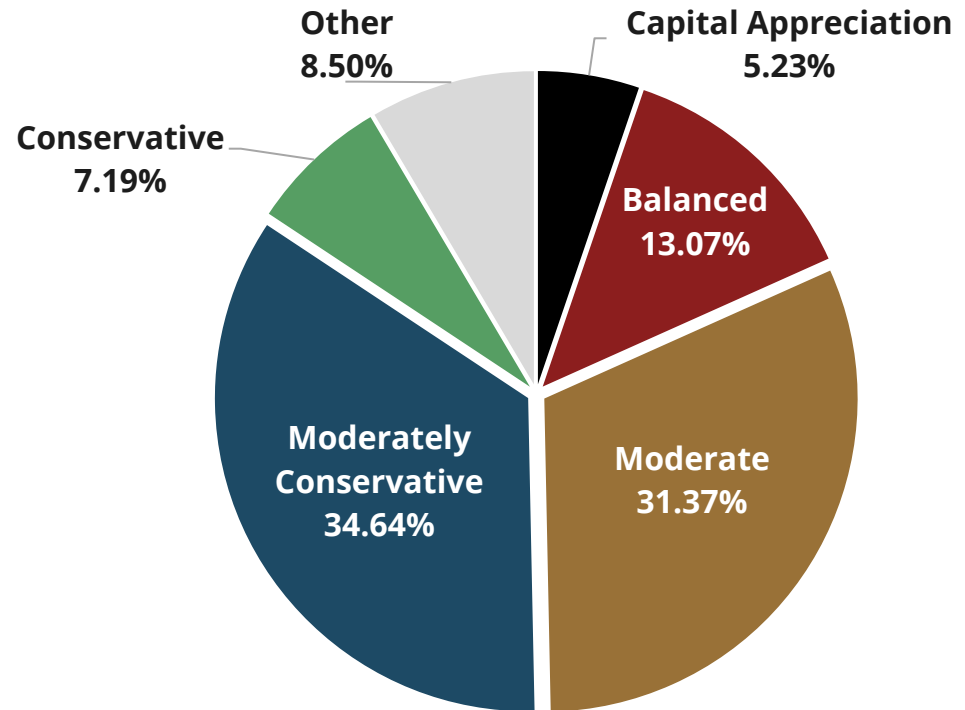
Active Platform: 68.22% / Passive Platform: 31.78%

PRSP STRATEGY ALLOCATION – CLIENTS

As of December 31, 2020

HIGHMARK CAPITAL MANAGEMENT

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%



Active Platform: 62.86% / Passive Platform: 37.14%

HIGHMARK CAPITAL MANAGEMENT

As of December 31, 2020

ACTIVE PORTFOLIO RETURNS

Strategy	Equity (%)	Weighted Embedded Expense Ratio **	1 Year	3 Years	5 Years	10 Years
Capital Appreciation	65-85%	0.50%	14.50%	9.76%	10.92%	9.15%
Balanced	50-70%	0.49%	14.06%	9.15%	9.90%	8.24%
Moderate	40-60%	0.48%	12.92%	8.45%	8.98%	7.49%
Moderately Conservative	20-40%	0.47%	10.76%	7.06%	7.12%	5.99%
Conservative	5-20%	0.45%	9.03%	6.10%	5.84%	4.75%

* Past performance does not guarantee future results.

** Annualized Total Returns are Gross of Investment Management Fees, but Net of Embedded Fund Fees.

HIGHMARK CAPITAL MANAGEMENT

As of December 31, 2020

INDEX PORTFOLIO RETURNS

Strategy	Equity (%)	Weighted Embedded Expense Ratio **	1 Year	3 Years	5 Years	10 Years
Balanced	50-70%	0.10%	12.07%	8.37%	9.33%	8.01%
Moderate	40-60%	0.09%	11.23%	7.85%	8.46%	7.28%
Moderately Conservative	20-40%	0.08%	9.74%	6.76%	6.76%	5.70%
Conservative	5-20%	0.07%	8.56%	5.83%	5.35%	4.43%

* Past performance does not guarantee future results.

** Annualized Total Returns are Gross of Investment Management Fees, but Net of Embedded Fund Fees.

SAMPLE FUNDING POLICIES

- | | |
|--|--------------------------|
| 1. Contribute 50% of a given year's realized year end surplus to address pension liability | Alameda/Solana Beach |
| 2. Contribute full amount of annual PERS employer cont., allowing anytime access to trust assets | City of Brea |
| 3. Contribute funds to stabilize PERS employer Misc. and Safety rates through FY 23-24 | City of Healdsburg |
| 4. "One equals five plan" - \$1M contribution for 5 years will save taxpayers \$5M over 25 years | City of Huntington Beach |
| 5. Contribute Employer contribution equal to the 2.8% discount rate, with difference going into the Section 115 Trust | City of Sausalito |
| 6. Contribute the annual savings realized from Reduction in UAL payment resulting from Pension Obligation Bonds issuance | City of Placentia |
| 7. Earmark a portion of a local sales tax to be set aside for unfunded pension liabilities | City of Fountain Valley |
| 8. Use ongoing savings from prepaying CalPERS unfunded liability vs. higher monthly payments | City of Pasadena |
| 9. Use one-time revenue source and lower the minimum General Fund Reserve level (30% → 20%) | City of Glendale |

STEPS TO IMPLEMENTATION

- 1.** City Council adopts resolution authorizing City to join PARS Combo Trust and appoints Plan Administrator (PA)
- 2.** City sends signed copy of resolution to PARS
- 3.** PARS sends set of signature-ready documents to City
- 4.** PARS coordinates meeting with City and Highmark Capital Management to discuss investment options and select strategy
- 5.** City signs documents and returns to PARS
- 6.** PARS works with Trustee/U.S. Bank to establish account
- 7.** PARS notifies City account is ready and includes Contribution Instructions
- 8.** PARS and Highmark conduct annual reviews (unless more frequently desired)

WHY PARS?

1. 115 Trust services for Prefunding Pension and OPEB is our Core business, unlike CalPERS and PFM
 2. Market pioneer and leader with over 225 PRSP client agencies in California (approximately 20 for CalPERS and 10 for PFM)
 3. 1st IRS-approved Section 115 Combination Trust (1 of only 2 in the nation capable of prefunding both OPEB and Pension in the same trust); CalPERS CERBT & CEPPT are separate trusts
 4. We offer mutual indemnification clause in agreements, unlike CalPERS
 5. Can reimburse Agency for up to 2 years of OPEB expenses (current year + prior year) vs. CalPERS who only reimburses for 1 year; helpful in an emergency or tough budget year
- Dedicated Portfolio Manager
6.
 - Fiduciary responsibility
 - Investment policy assistance
 - Annual onsite reviews
 - Cell phone access
 7. Choice of 5 active or 5 passive portfolios or custom option vs. 3 passive options only for CERBT and 2 passive options only for CEPPT
 8. Greater Net Performance (8.55% vs. 7.96% for CalPERS; 10-Year Returns as of 12/31/20)

PARS Investment Program

About HighMark Capital Management, Inc.

LONGEVITY

Managing assets for clients since **1919***

TALENT

43 investment professionals
24 professionals hold the Chartered Financial Analyst® (CFA) designation
22 years average industry experience

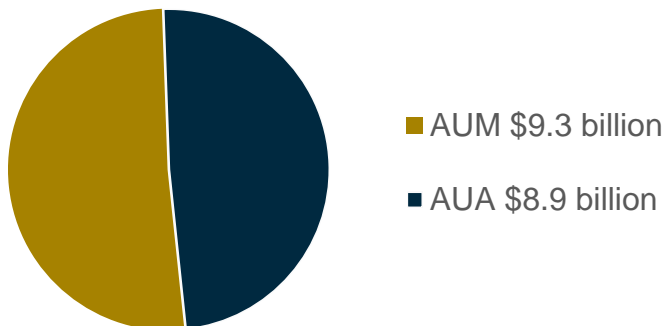
STABILITY

Investment boutique structure headquartered in San Francisco backed by global strength within MUFG Union Bank, N.A.

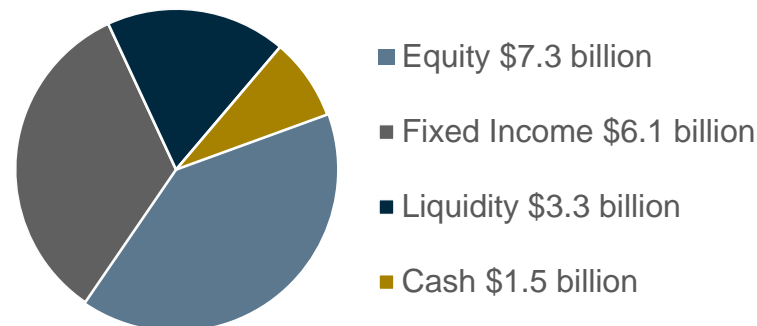
ASSETS UNDER MANAGEMENT AND ADVISEMENT**

\$18.2 billion as of 12/31/2020

Client Base



Asset Class



*Includes predecessor organizations. HighMark Capital Management, Inc. registered with the SEC as an investment adviser on August 7, 1998.

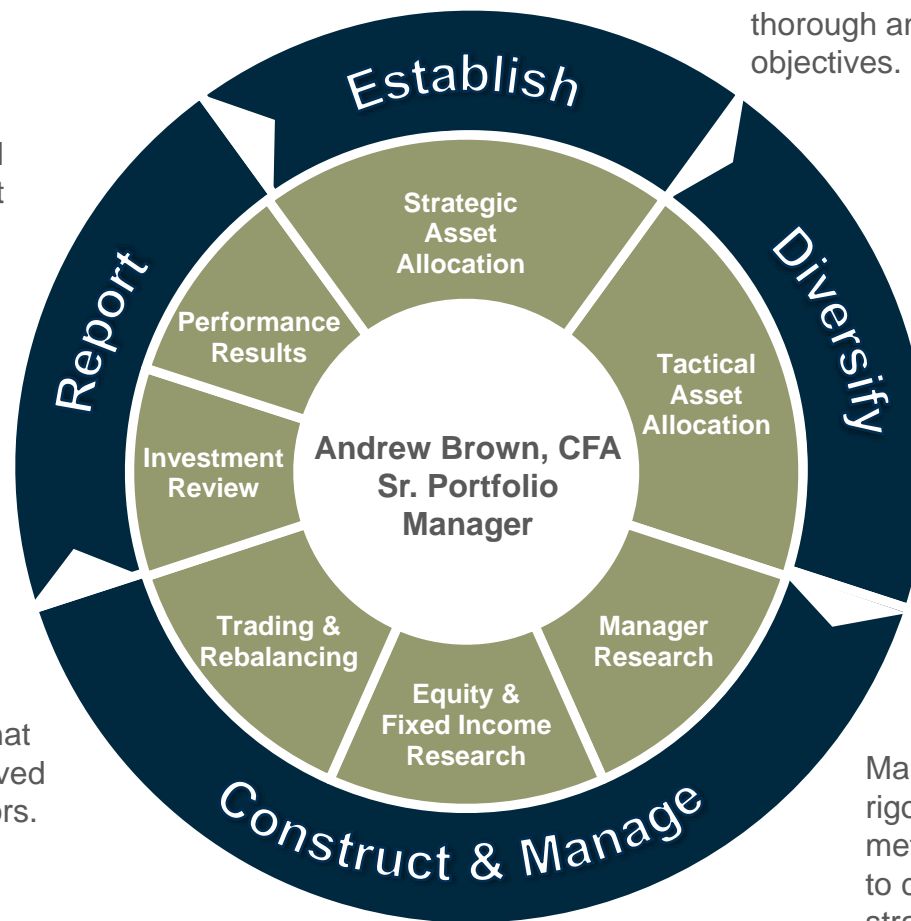
**Assets under management (“AUM”) include assets for which HighMark provides continuous and regular supervisory and management services. Assets under advisement (“AUA”) include assets for which HighMark provides certain investment advisory services (including, but not limited to, investment research and strategies) for client assets of its parent company, MUFG Union Bank, N.A.

Disciplined Investment Process

Your Plan's Portfolio Manager is supported by deep investment resources and unique processes.

Regular investment & performance reports, as well as contact with your account portfolio manager, helps to keep you informed.

Your portfolio's strategic asset allocation policy is established in your Investment Guidelines Document (IGD) after a thorough analysis of your needs and objectives.



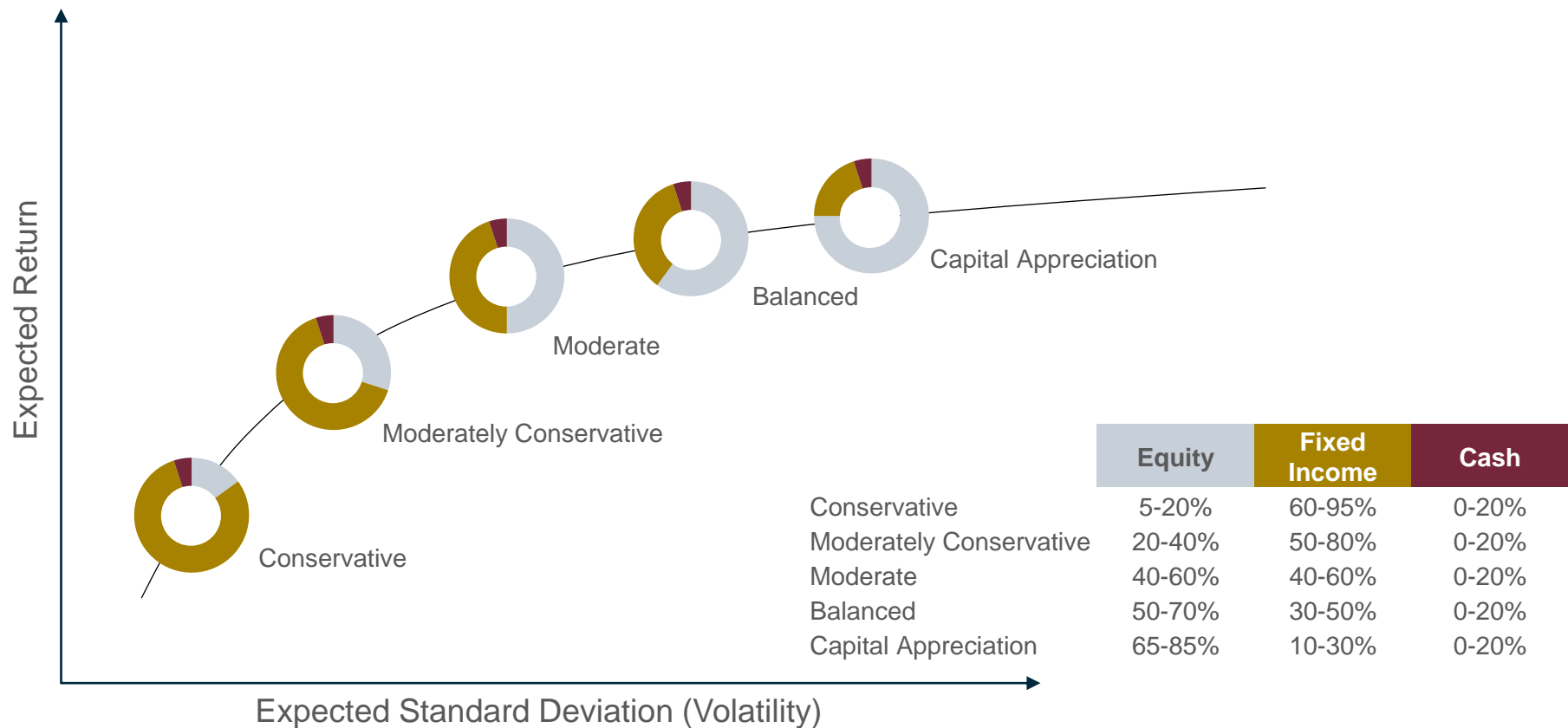
We typically invest in share classes that offer the lowest expense ratio available for that fund, which is typically reserved for larger institutional investors.

Asset Allocation Committee (AAC) employs a multi-factor approach to establish long-term strategic asset allocation ranges as well as provide tactical diversification guidelines in an effort to capitalize on short-term market opportunities.

Manager Research Group utilizes rigorous due diligence methodologies to provide access to competitive externally managed strategies and index-based funds.

Establish: Determine your Strategic Asset Allocation Strategy

Efficient frontier of portfolios with varying ranges of equities and fixed income



Each Investment Objective reflects the associated PARS Diversified Portfolio as of 12/31/2020. A client's portfolio construction may vary depending on the client's investment needs, objectives, and restrictions as well as the prevailing market conditions at the time of investment.

Construct Your Plan's Portfolio: PARS Diversified Portfolios – Active v. Passive

	HighMark Plus (Active)		Index Plus (Passive)	
Equity	Ticker	Fund Name	Ticker	Fund Name
Large Cap Blend	COFYX	Columbia Contrarian Core I3	IVV	iShares Core S&P 500 ETF
Large Cap Blend	VGIAX	Vanguard Growth & Income Adm		
Large Cap Value	DODGX	Dodge & Cox Stock	IVE	iShares S&P 500 Value ETF
Large Cap Value	IVE	iShares S&P 500 Value ETF		
Large Cap Growth	HNACX	Harbor Capital Appreciation Ret	IVW	iShares S&P 500 Growth ETF
Large Cap Growth	PRUFX	T. Rowe Price Growth Stock I		
Mid Cap Blend	IWR	iShares Russell Mid-Cap ETF	IWR	iShares Russell Mid-Cap ETF
Real Estate	VNQ	Vanguard Real Estate ETF	VNQ	Vanguard Real Estate ETF
Small Cap Value	UBVFX	Undiscovered Managers Behavioral Val R6	IWN	iShares Russell 2000 Value ETF
Small Cap Growth	RSEJX	Victory RS Small Cap Growth R6	IWO	iShares Russell 2000 Growth ETF
International	DFALX	DFA Large Cap International Portfolio		
International	DODFX	Dodge & Cox International Stock		
International	MGRDX	MFS International Growth R6	IEFA	iShares Core MSCI EAFE ETF
Emerging Markets	HHHFX	Hartford Schrodgers Emerging Mkts Eq F	VWO	Vanguard FTSE Emerging Markets ETF
Fixed Income	Ticker	Fund Name	Ticker	Fund Name
Short Term Bond	VFSUX	Vanguard Short-Term Investment-Grade Adm	VFSUX	Vanguard Short-Term Investment-Grade Adm
High Yield Bond	PHIYX	PIMCO High Yield Instl	JNK	SPDR® Bloomberg Barclays High Yield Bond
Intermediate Term Bond	PTRRX	PIMCO Total Return Instl	AGG	iShares Core U.S. Aggregate Bond
Intermediate Term Bond	PTRQX	PGIM Total Return Bond Q		
Intermediate Term Bond	DBLFX	DoubleLine Core Fixed Income I		
Cash				
Characteristics				
Fund Manager Dependency		Higher dependency on portfolio manager skill		Tracks index, thus little-to-no dependency on portfolio manager skill.
Opportunity to Outperform Index		Opportunity to outperform index		Typically performs below index after fees.
Costs		Higher expense ratios due to portfolio manager skill		Lower expense ratio due to little dependency on portfolio manager skill or opportunity for outperformance.

Each Investment Objective reflects the associated PARS Diversified Portfolio as of 12/31/2020. A client's portfolio construction may vary depending on the client's investment needs, objectives, and restrictions as well as the prevailing market conditions at the time of investment. Specific securities identified above do not represent all of the securities purchased, sold or recommended for advisory clients, and you should not assume that investments in the securities identified in this presentation were or will be profitable.

Report: Responsive and Proactive Client Communication

HighMark's dedicated investment team continuously seeks to add value to our relationship with your organization.

- Integrated client service program established with PARS over the last 24 years
- We have a tradition of interactive client service to maintain a strong relationship delivered by local portfolio managers
- You benefit from face-to-face meetings and scheduled conference calls with your client service team and portfolio management team
- You receive regular communications in a variety of formats
 - Account holdings and transactions
 - Quarterly performance evaluation reports
 - Investment outlook and economic updates



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Director
Sr. Portfolio Manager
Northern California



Keith Stribling, CFA
Vice President
Sr. Portfolio Manager
Orange County



Hoddy Fritz
Director
Business
Development
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Christiane Tsuda
Vice President
Sr. Portfolio Manager
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Tory Milazzo, CFA
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Sr. Portfolio Manager
Central Coast



Randy Yurchak, CFA
Vice President
Sr. Portfolio Manager
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