



STAFF REPORT – CITY COUNCIL MEETING

TO: Honorable Mayor and City Council Members

FROM: Tabatha Miller, Assistant City Manager/Finance Director

PREPARER: Tabatha Miller, Assistant City Manager/Finance Director

DATE: December 17, 2025

TITLE: **Adopt Resolution No. 256-03 to Authorize Establishing a Public Agency Retirement Services (PARS) 115 Trust to Prefund City Pension Obligations; and Authorize the City Manager to Execute All Applicable Documents.**

RECOMMENDATION:

It is recommended that the Council Adopt Resolution No. 256-03 to authorize the City Manager to establish a Public Agency Retirement Services (PARS) 115 Trust Account to prefund City pension obligations; and authorize the City Manager to execute all applicable documents.

INTRODUCTION:

Consistent with the City's Pension Funding Policy, in 2023 the City established a 115 Trust Account through the California Public Employees' Retirement System (CalPERS). A 115-pension prefunding trust account allows the City to use the contributed funds to reimburse itself for pension expenses or to make payments to CalPERS. The California Employers' Pension Prefunding Trust Fund (CEPPT) is limited to two investment strategies. To expand the City's investment options and provide opportunities for higher returns, staff recommend establishing an additional 115 Trust Account with Public Agency Retirement Services (PARS).

BACKGROUND:

Like many municipalities in California and across the United States, Arcata's pension liability is its single largest debt and a significant ongoing expense. The Unfunded Accrued Liability (UAL) is the present value of future employer contributions for service that has already been earned. It is the shortfall between the City's pension assets and what is needed to fully pay out the benefits already promised to retirees. The most recent Actuarial reports estimate the City's UAL at \$32.8 million, which does not include the \$5 million additional discretionary payment (ADP) or the nearly \$4 million in existing 115 Pension Prefund Trust.¹ The UAL is in addition to the City's normal ongoing annual contributions for current employees.

As part of developing the Fiscal Year (FY) 2023-2024 Budget, the City Council authorized a payment strategy with the objectives of decreasing the liability, stabilizing pension costs and reducing interest cost – currently at 6.8% charged on all UAL balances. Part of that strategy authorized establishing a Section 115 Trust and allocating \$2.5 million as initial funding. On August

¹ CalPERS issues Actuarial annually in late July or early August. The actuarial data is from the prior year and estimates costs for the next fiscal year. The most recent report is dated June 30, 2023.

16, 2023, the City Council authorized the Mayor or Vice Mayor to execute the documents to establish a California Employers' Pension Prefunding Trust Fund (CEPPT). The current balance in the City's CEPPT account is \$3,953,752.

When making contributions to the CalPERS CEPPT account, the City can choose between two investment strategies. Strategy 1 seeks to provide capital appreciation and income over the longer term and is the more aggressive of the two options. Strategy 2 has a greater share of fixed income investments and focuses on stable income and principal. While the CalPERS CEPPT investment options focus on long term growth to match the long-term nature of the CalPERS pension obligation, both are passive conservative investments.

Conservative is typically a golden standard in investment of public funds. Section 115 of the Internal Revenue Code (IRC) authorizes and defines the terms of a Section 115 Trust. It is an irrevocable investment account dedicated for a specific purpose. Interest earnings are not taxed but more significant to local governments, it allows for investing longer term than the California Government Code (Sections 53620-22). Pension obligations by their nature are long-term liabilities. Pension benefits earned by an employee today may not be paid for 25 to even 50 years, depending on the age of the employee. The City's regular investments, like most local governments, focus on safety, liquidity, and yield, in that order, so that funds are available to pay current or near future expenditures.

115 Pension Trusts allows the City to invest in longer-term securities that better match the term of the City's UAL. Those longer-term investments are designed and expected to earn better returns. The CalPERS CEPPT options are good investment products, but staff recommend adding options to diversify.

Public Agency Retirement Services (PARS) has been offering 115 Trust Services since 1984, and their products predate CalPERS CEPPT accounts. PARS offers five strategies plus the option of customizing a strategy. Their comparable products have consistently outperformed the CalPERS CEPPT products.

NET PERFORMANCE FEE ANALYSIS

As of March 31, 2025

Over 1 Year		Over 3 Years		Over 5 Years	
PARS		PARS		PARS	
Moderate* (50% Fixed Income/Cash)	5.53%	Moderate* (50% Fixed Income/Cash)	4.00%	Moderate* (50% Fixed Income/Cash)	8.50%
minus weighted PARS administration fee	(-) 0.25%	minus weighted PARS administration fee	(-) 0.25%	minus weighted PARS administration fee	(-) 0.25%
minus weighted investment management fee	(-) 0.35%	minus weighted investment management fee	(-) 0.35%	minus weighted investment management fee	(-) 0.35%
1-Year Net Return	4.93%	3-Year Net Return	3.40%	5-Year Net Return	7.90%

CALPERS CEPPT		CALPERS CEPPT		CALPERS CEPPT	
Strategy 1** (49% Fixed Income/Cash)	5.62%	Strategy 1** (49% Fixed Income/Cash)	2.60%	Strategy 1** (49% Fixed Income/Cash)	6.56%
minus fees	(-) 0.25%	minus fees	(-) 0.23%	minus fees	(-) 0.24%
1-Year Net Return	5.37%	3-Year Net Return	2.37%	5-Year Net Return	6.32%

*Annualized Returns over 1, 3 and 5 years are based on the PARS/115P Moderate Strategic Blend portfolio. The returns provided are gross of investment advisory fees and net of mutual fund fees.

DISCUSSION:

A 115 Pension Trust allows the City to invest in longer-term securities that better match the term of the City’s UAL. Once the funds are deposited into the trust, they can only be used towards pension costs. However, unlike additional discretionary payments (ADPs) paid directly to CalPERS and applied to the UAL, 115 trust funds can be used at any time as ADPs or used to cover current annually required contributions for the UAL payments or to meet regular employer contributions. This flexibility adds another layer to the City’s reserve funds. Greater investment strategies should result in higher returns and more funding to pay down the UAL over the long term.

POLICY IMPLICATIONS:

More investment strategies and potentially higher rates of return are consistent and support the City’s Pension Funding Policy.

Alternatively, there have been conversations about the City’s investment policy and control over what securities should or should not make up the investment portfolio. Should the City choose to do so, it may establish a Directed Account within the PARS 115 Trust. This option would allow the City to take on all the investment responsibilities and self-direct its investments that have been vetted and approved by pre-established guidance or policy. There’s no minimum threshold to establish a Directed Account.

BUDGET/FISCAL IMPACT:

The long-term fiscal impact of this pension-related action is impossible to quantify. However, reserving funds today and investing those funds in strategies that match the investment goals and timeframes will bring budgetary benefits over time. The City’s current CEPPT 115 Pension Prefund Trust has a balance of \$3,383,225. A General Fund surplus of approximately \$1.6 million is

estimated for FY 2024-25. Per the City's Pension Funding Policy, 25%, or approximately \$400,000 of that surplus is to be applied to a one-time ADP to CalPERS or a contribution to the City's 115 Trust Account.

RECOMMENDED COUNCIL ACTION:

Motion to:

1. Adopt Resolution No. 256-03, authorizing the City Manager to establish a Public Agency Retirement Services (PARS) 115 Trust Account to prefund City pension obligations; and
2. Authorize the City Manager to execute all applicable documents.

Consent Calendar Vote.

ATTACHMENTS:

- A. Resolution No. 256-03
- B. Draft Contract for Services with PARS