

to establish accounts for the setup of the 115 Trust Program with the new investment advisor, Shuster Advisory Group LLC.

BACKGROUND:

The City has two pension trusts with the California Public Employees’ Retirement System (CalPERS): one for public safety employees and one for miscellaneous employees. These trusts are funded by employer and employee contributions, as well as investment earnings on those contributions. To ensure the trusts reach the necessary funding levels to pay employee pensions, CalPERS establishes a set of actuarial assumptions.

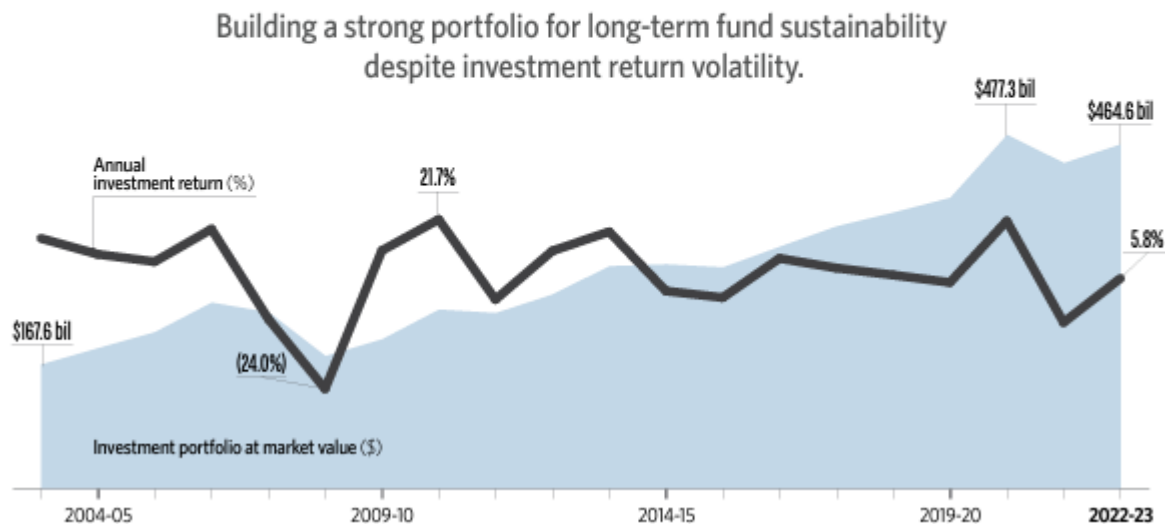
One of the most critical assumptions in achieving full funding goals is the rate of return on investments in the trusts. As a consequence of historical under-performance; a long, low interest rate environment; and movement toward a more “risk averse” portfolio, the CalPERS board approved a plan to gradually reduce the assumed Return on Investment (ROI) from 7.5% to 7.0% over a three-year period ending in July 2019. In July of 2021, the CalPERS Board of Directors voted to lower the discount rate from 7.0% to 6.8% to address concerns in the investment community regarding expectations of lower future returns and minimize the portfolio’s sensitivity to various risks in the future. If this rate of return is attained, 66% of the pension obligations would be derived from investment gains, and 34% from contributions. However, if the 6.8% rate of return is not realized, contributions from employers and employees will have to increase.

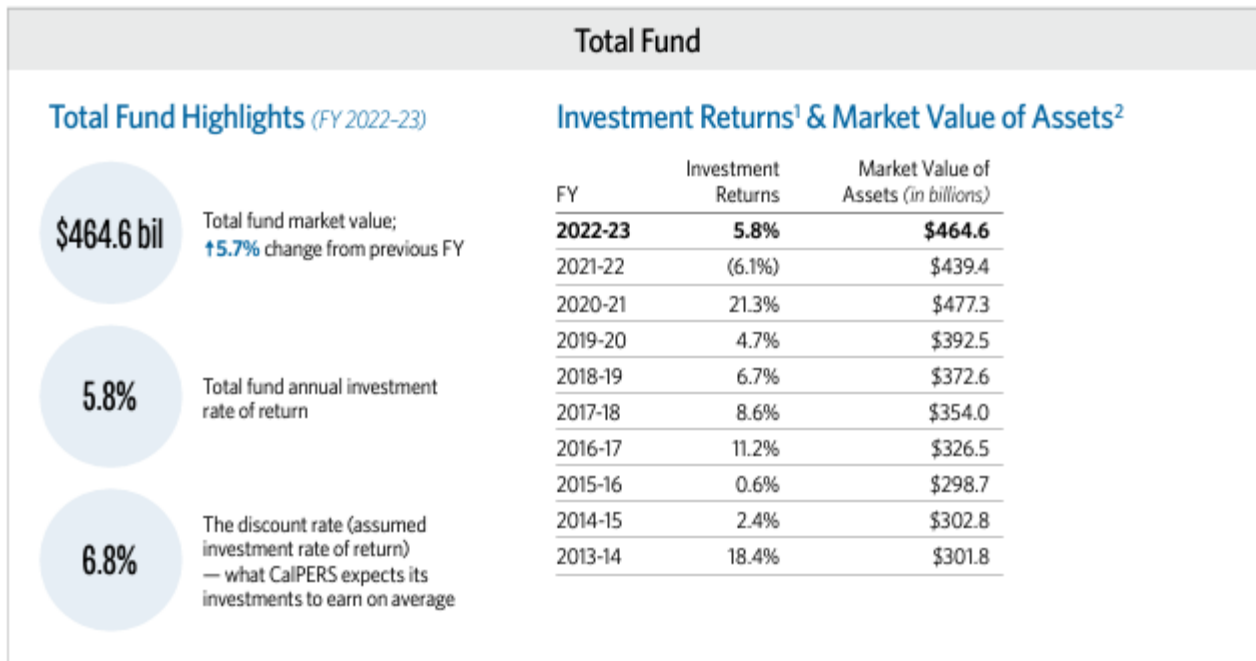
Unfortunately, CalPERS has not consistently achieved this ROI, and the outlook from the investment community and actuaries for a 6.8% annual rate of return is increasingly pessimistic. In fact, the average actual rates of return on CalPERS investments, as depicted in the table below, have fallen below expectations in several time periods.

CalPERS Facts at a Glance » FY 2022–23

Additional information can be found in the *Annual Comprehensive Financial Report* at www.calpers.ca.gov.

Investments





Source of above tables is the CalPERS website:
(<https://www.calpers.ca.gov/docs/forms-publications/facts-investments.pdf>)

CalPERS’ gradual decrease in the ROI assumptions has resulted in higher contribution rates for employers and employees. The most recent CalPERS actuarial reports dated July 2023 list funded ratios for the City’s Plans as of June 30, 2022, as follows: the miscellaneous group stands at 89.9% and the public safety group stands at 86.4%. If the actual ROI decreases, the funded levels will decline, placing the City further behind in meeting its pension obligations. Consequently, addressing rising pension costs is critical to the financial health and sustainability of the City.

On August 6, 2019, the City Council approved a Pension Funding Policy for the purpose of deploying a variety of strategies to achieve the following objectives: reduce projected pension contributions to maintain services, and increase the funding ratio for both the City’s Safety and Miscellaneous CalPERS plans. One of those strategies was to establish a Section 115 Pension Trust to realize greater investment returns than what is currently available through the City’s cash pool investments. A third-party irrevocable trust to prefund a portion of the City’s future long-term financial pension obligation is a prudent financial strategy and recognized best practice that will help the City achieve greater financial sustainability.

Following a competitive RFP process, on November 19, 2019, the City Council approved an agreement and adopted a resolution authorizing Public Agency Retirement Services (PARS) to administer the trust in compliance with Internal Revenue Code Section 115. The initial term of the agreement was three years, with an option to extend for an additional two-year period. The first amendment was executed by City Management on November 16th, 2022, which extended the initial agreement to November 19th, 2024.

DISCUSSION:

On December 13, 2023, Request for Proposal (RFP) No. 2342 was posted on Planet Bids seeking competitive solicitations for Section 115 Pension Trust Fund Administration and Investment Management Services with Shuster Advisory Group LLC, of California, to include comprehensive administration, trustee, fiduciary investment management & advisory, compliance monitoring, and reporting services to prefund the City’s pension obligations.

Upon release of RFP No. 2342, there were one-hundred and seventeen vendors notified and twenty-two were registered as prospective bidders. On January 8, 2024, (3) bids were received and met the minimum qualifications. All three (3) firms were evaluated by an evaluation panel of five (5) City staff members, and it was determined that Schuster Advisory Group, LLC offers the best value to the City.

Consultant	Total Points Received	Rank
Shuster Advisory Group, LLC	915	1
Phase II Systems (PARS)	783	2
California Public Employees' Retirement System (CalPERS)	749	3

The following fee table is a cost comparison between the three prospective bidders. Total costs include the services listed below:

Fee Schedule Per Year based on Assets of over \$50 million			
Category of Fees	California Public Employees' Retirement System (CalPERS)	Phase II Systems (PARS)	Shuster Advisory Group, LLC
Trust Admin Fees	0.198% ¹	0.05%	0.01%
Trustee Fees	0.00%	0.0%	0.02% ²
Custodian Fees	0.008%	0.0%	0.01%
Investment Advisory / Mgmt Fees	0.44% ³	0.05% ⁴	0.06%
Total	0.25%	0.10%	0.10%

Estimated Total Fees Per Year based on Assets of \$50 million			
Category of Fees	California Public Employees' Retirement System (CalPERS)	Phase II Systems (PARS)	Shuster Advisory Group, LLC
Trust Admin Fees	\$99,000	\$25,000	\$5,000
Trustee Fees	0	0	\$5,000 ⁵
Custodian Fees	\$4,000	0	\$5,000
Investment Advisory / Management Fees	\$22,000	\$25,000	\$30,000
Total	\$125,000	\$50,000	\$45,000

Shuster Advisory Group, LLC (Shuster), with its founder Mark Shuster having over 30 years' experience, designs and administers retirement plans and trust solutions for public agencies. Currently, Shuster administers plan assets totaling more than \$8 billion dollars for over 90 governmental agency clients. As an SEC registered Investment Advisor, Shuster has a fiduciary responsibility to its clients. Contributions to the trust fund are strictly voluntary by the City and can

1 Includes external investment operating expenses, online record keeping and program admin fees

2 Trustee fees cap at a maximum of \$5,000 per year

3 Includes both external investment management fees and internal investment fees

4 Includes custodian fees which are tiered on assets under management. Fee listed is based upon assets of \$50 million

5 Trustee Fees of 0.02% is equal to \$10,000k therefore Fee Cap of \$5000 is implemented

be accessed at any time to pay for pension obligations. Fees are only charged when assets are added to the trust.

Shuster was the only advisor that offered a customizable investment strategy, allowing each client to have a separately managed account tailored to their individual investment objectives. Based on this individualized investment strategy aligned with the City's goals and objectives, alongside Shuster's established track record and the size of the client base and assets under management, Finance staff recommends that Council engage Shuster to provide these services.

Expected benefits offered by the Shuster Section 115 Irrevocable Pension Trust include:

- Investment flexibility with Section 115 Trust compared to restrictions on general City fund investments (Govt. Code 53216).
- Increased risk diversification of plan assets through different asset management.
- Investments can be tailored to the City's unique demographics.
- Oversight and control of fund management selection, monitoring of performance, and ability to replace fund management based on performance criteria.
- Increased flexibility in the use of trust assets (i.e., trust assets can be accessed at any time as long as the assets are used to fund the City's pension obligations and defray reasonable expenses associated therewith).
- Potential for positive rating agency and investor consideration.

The Purchasing Manager concurs that the recommendations are in compliance with Purchasing Resolution No. 24101.

STRATEGIC PLAN ALIGNMENT:

This item contributes to **Strategic Priority 5 – High Performing Government** and **Goal 5.3 – Enhance communication and collaboration with community members, to improve transparency, build public trust, and encourage shared decision-making.**

This item aligns with each of the five Cross-Cutting Threads as follows:

1. **Community Trust** – The proactive management of the City's Unfunded Accrued Liability is crucial for managing the City's current and future financial liabilities related to its pension obligations. By making decisions based on sound policy and utilizing guidance from financial experts, the City's actions will benefit future populations by providing a Trust that can be used to mitigate this future liability.
2. **Equity** – By maintaining a 115 Trust and prefunding the pension obligation, the City is ensuring the financial stability of its pension obligation for all employees – current, past and future – while preserving the City's ability to maintain service levels in future years even as pension obligations increase dramatically.
3. **Fiscal Responsibility** – By prefunding pension obligations through the 115 Trust, the City ensures that sufficient assets are available to meet future pension liabilities, mitigating the risk of dramatic increases in pension costs, and fostering a more predictable and sustainable financial environment.
4. **Innovation** – A 115 Pension Trust under the management of an experienced and knowledgeable asset manager allows the City to diversify its investment portfolio under a

less stringent framework than is permitted by Government Code within its cash pool portfolio.

5. **Sustainability & Resiliency** – By prefunding pension obligations through the 115 Trust, the City establishes a robust financial foundation that can withstand economic fluctuations and unexpected challenges. In doing so, Riverside demonstrates its commitment to persevering, adapting, and growing during both prosperous and challenging times, ensuring long-term financial stability and resilience.

FISCAL IMPACT:

The market value of the Trust’s assets was approximately \$50 million as of April 30, 2024. The City budgeted a \$26 million contribution to the Sec 115 Trust account for FY 2023-24, of which \$13 million had been transferred as of April 30, 2024. The remaining \$13 million will be transferred after the transition of the Trust to Shuster. The City has a total contribution target of approximately \$100 million for this account, with a plan to contribute the remaining funds over the next four years. All future contributions will be included in the applicable budgets presented for Council adoption. Fees resulting from managing the trust are netted against the portfolio’s investment returns and will not have a direct budgetary impact. There are no other costs associated with this action.

Prepared by: Meline Carranza, Debt and Treasury Manager
Approved by: Kristie Thomas, Finance Director/Assistant Chief Financial Officer
Certified as to
availability of funds: Kristie Thomas, Finance Director/Assistant Chief Financial Officer
Approved by: Edward Enriquez, Assistant City Manager/Chief Financial Officer/City
Treasurer
Approved as to form: Phaedra A. Norton, City Attorney

Attachments:

1. RFP Award Recommendation
2. Professional Consultant Services Agreement with Shuster Advisory Group, LLC
3. Resolution