

PUBLIC
AGENCY
RETIREMENT
SERVICES

PARS

TRUSTED SOLUTIONS. LASTING RESULTS



COUNTY OF MENDOCINO

PARS 115 Trust – Pension Rate Stabilization Program (PRSP)

March 1, 2022

CONTACTS



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PARS 115 TRUST TEAM

Trust Administrator & Consultant



- Serves as record-keeper, consultant, and central point of contact
- Sub-trust accounting
- Coordinates all agency services
- Monitors plan compliance (IRS/GASB/State Government Code)
- Processes contributions/disbursements
- Hands-on, dedicated support teams

38

Years of Experience
(1984-2022)

2,000+

Plans under
Administration

1,000+

Public Agency
Clients

430+

115 Trust Clients

500K+

Plan Participants

\$6.7B

Assets under
Administration

Trustee



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

159

Years of Experience
(1863-2022)

\$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)

103

Years of Experience
(1919-2022)

\$20.2B

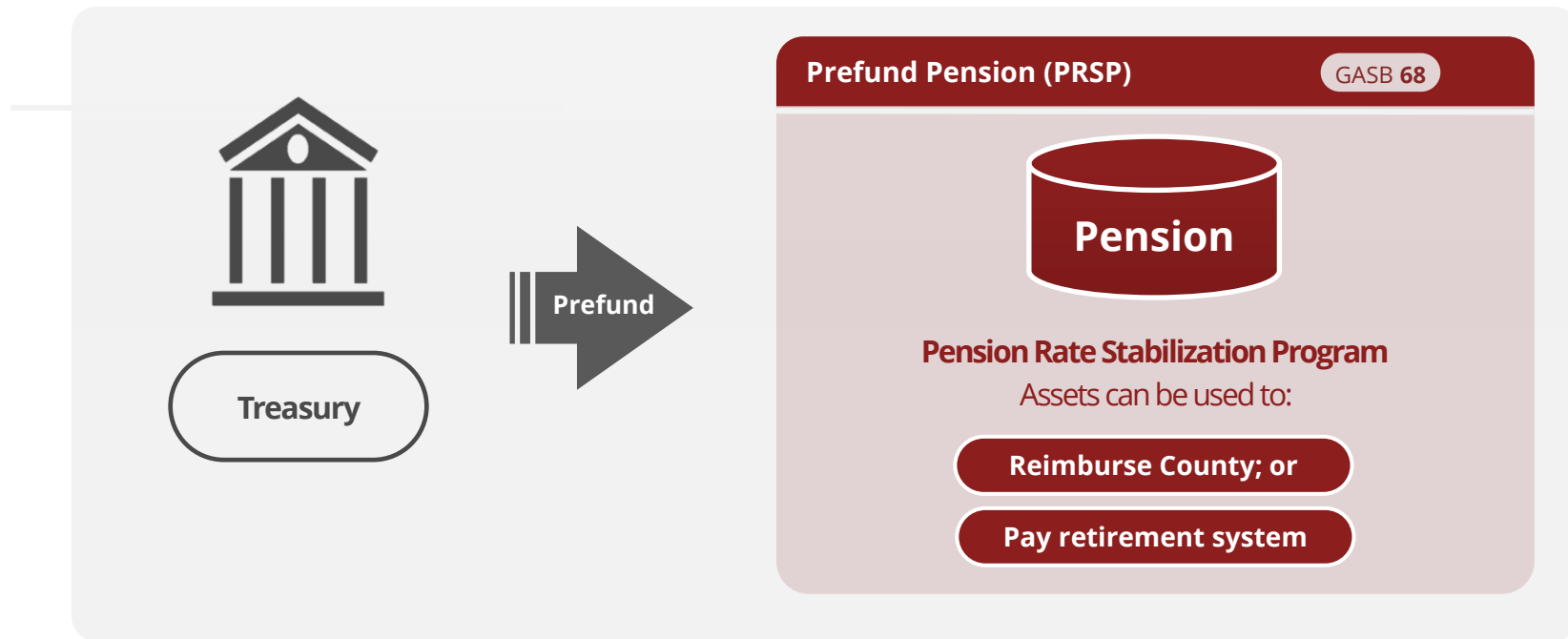
Assets under
Management &
Advisement

115 TRUST – 430+ CLIENTS INCLUDING:

Updated February 2022

COUNTIES	REGIONAL CITIES & TOWNS	REGIONAL SPECIAL DISTRICTS	REGIONAL EDUCATION ENTITIES
Alpine Amador Calaveras Colusa Contra Costa Humboldt Imperial Inyo Kern Kings Lake Lassen Mariposa Merced Mono Monterey Napa Nevada Placer Plumas Riverside San Benito Shasta Siskiyou Solano Sonoma Sutter Tehama Trinity Tulare Yolo Yuba	Fairfax Healdsburg Rohnert Park Ross San Anselmo Sausalito	Bodega Bay Public Utilities District Humboldt Bay Fire Joint Powers Authority Humboldt Bay Municipal Water District Humboldt No. 1 Fire Protection District Novato Sanitary District Shasta Valley Cemetery District Southern Marin Fire Protection District	Calistoga Joint Unified School District Cotati-Rohnert Park Unified School District Marin CCD Red Bluff Joint Union High School District Red Bluff Union Elementary School District Shasta-Trinity-Tehama Joint CCD

PARS IRS-APPROVED SECTION 115 TRUST



Subaccounts

Pension assets can be divided by dept., bargaining group, or cost center



Financial Stability

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



Flexible Investing

Choice of 5 risk tolerance levels or custom strategy



Anytime Access

Trust funds are available anytime for Pension-related expenses



Economies-of-Scale

As assets grow, lower fee rates will be reached on tiered schedule – saving money



No Set Up Cost or Minimums

No set-up costs, no minimum annual contribution amounts, and no fees until assets are added.

PROGRAM ADVANTAGES: FULL SERVICE

1. **Dedicated PARS Senior Consultants: Mitch Barker and Mike Graves (former Supervisor of San Benito County)**

- Ensures superior client satisfaction

2. **Dedicated PARS Client Services Coordinator: Angela Tang**

- Customizes *Administrator's Handbook*
- Monitors contributions
- Processes disbursements to County
- Coordinates annual reviews and addresses all client concerns

3. **Dedicated Investment Management: Andrew Brown**

- Conducts periodic onsite reviews of performance & market conditions - Frequency determined by the County
- Directly available by cell phone
- Assistance on investment policy

SIMPLE BUT FLEXIBLE INVESTMENT APPROACH

1. Input Phase

- Target discount rate
- Risk tolerance
- Investment philosophy
- Asset allocation
- Timing on use of funds

2a. Model Portfolios

Strategy	Equity
Capital Appreciation	65-85%
Balanced	50-70%
Moderate	40-60%
Moderately Conservative	20-40%
Conservative	5-20%

or

2b. Custom Portfolios

- Specially designed for Agency
- Lower fee options
- Individual securities
- Alternatives

3. Portfolio Manager

- Makes recommendation
- Fiduciary responsibility
- Drafts investment policy
- Annual on-site reviews
- Cell phone access

HIGHMARK CAPITAL MANAGEMENT

As of December 31, 2021

ACTIVE PORTFOLIO RETURNS

Strategy	Equity (%)	1 Year	3 Years	5 Years	10 Years
Capital Appreciation	65-85%	14.96%	17.30%	12.15%	10.83%
Balanced	50-70%	11.44%	14.99%	10.80%	9.45%
Moderate	40-60%	9.31%	13.26%	9.56%	8.39%
Moderately Conservative	20-40%	5.15%	9.82%	7.17%	6.34%
Conservative	5-20%	2.20%	7.36%	5.43%	4.75%

* Past performance does not guarantee future results.

PROGRAM FEES

As of December 31, 2021

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 County's direction, which can help offset future rate increases (i.e., pension rate stabilization).

MCERS Changes

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

Lowering of Discount Rate

7.0%



6.75%

MCERS lowered the discount rate from 7.0% to 6.75%. The impact is reflected in the June 30, 2020 valuation reports.

PENSION FUNDING STATUS

As of June 30, 2020, MCER's pension plan is funded as follows:

Mendocino County, Mendocino County Courts, Russian River Cemetery District	Valuation as of June 30, 2020	Valuation as of June 30, 2021	Change
Total Pension Liability	\$795.8 M	\$820.4 M	3.1% ↑
Plan Fiduciary Net Position (\$)	\$539.0 M	\$696.4 M	29.2% ↑
Plan Fiduciary Net Position (%)	67.7%	84.9%	25.3% ↑
Net Pension Liability	\$256.9 M	\$124.01 M	51.7% ↓
Actuarially Determined Contributions	\$24.6 M	\$26.3 M	6.8% ↑
Discount Rate	6.75%	6.75%	--

* Data from MCERS June 30, 2021 GASB 67 Actuarial Valuation

WHY PREFUND PENSION OBLIGATIONS?

1. Complete Local Control over Assets

County 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 County'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. Diversification

Allows for investment flexibility and offers the potential for assets to earn greater returns than the Treasury

SAMPLE FUNDING POLICIES

- | | | |
|----|--|------------------|
| 1. | Contribute \$2 million towards the establishment of the trust, with additional funds depending on the fiscal year ending balance of the County's Liability Management fund | Riverside County |
| 2. | Contribute funds towards the trust as existing pension and other outstanding debts are retired, in order to achieve and maintain a funding ratio at or above 90% in the County's Safety/Miscellaneous plans | Solano County |
| 3. | Transfer \$2.9 million from Reserve for Post-Retirement Contributions towards the 115 Trust, with annual contributions totaling to the PERS employer contribution collected biweekly through Payroll | Placer County |
| 4. | Contribute \$3.2 million towards the establishment from the trust from the General Fund, coinciding with the payoff of Safety Plan pension liability, with additional payments totaling \$850,000 over 4 years | Nevada County |
| 5. | Dual strategy of lowering pension UAL with issuance of Pension Obligation Bonds and prefunding 115 Trust | Tulare County |

STEPS TO IMPLEMENTATION

- 1 Board adopts resolution authorizing County to join PARS 115 Trust and appoints Plan Administrator (PA)
- 2 County sends signed copy of resolution to PARS
- 3 PARS sends set of signature-ready documents to County
- 4 PARS coordinates meeting with County and Highmark Capital Management to discuss investment options and select strategy
- 5 County signs documents and returns to PARS
- 6 PARS works with Trustee/U.S. Bank to establish account
- 7 PARS notifies County account is ready and includes Contribution Instructions
- 8 County makes Contribution using Transmittal Form
- 9 PARS and Highmark conduct annual reviews (unless more frequently desired)

WHY PARS?

1. 115 Trust services for Prefunding Pension is our Core business
2. Market pioneer and leader with over 255 PRSP client agencies in California
3. IRS-approved Section 115 Trust ensures earnings on assets are tax-exempt
4. We offer mutual indemnification clause in agreements
5. Can reimburse County for up to 2 years of Pension-related expenses (current year + prior year)
6.

Dedicated Portfolio Manager

 - Fiduciary responsibility
 - Investment policy assistance
 - Annual onsite reviews
 - Cell phone access
7. Choice of 5 active or 5 passive portfolios or custom option
8. No minimum fees, no minimum contributions, no trading fees & no 12b-1 fees