

## Agenda Report Details (With Text)

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<b>Title:</b>	SECTION 115 TRUST PENSION ACCOUNT CONTRACT AWARD				
<b>Sponsors:</b>	Lorenzo Tyner				
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<b>Attachments:</b>	1. Agenda Report, 2. Chandler Agreement, 3. PFM Agreement, 4. PARS Agreement, 5. OC SAN 21-XX (Chandler), 6. OC SAN 21-XX (PARS), 7. OC SAN 21-XX (PFM)				

Date	Ver.	Action By	Action	Result
11/10/2021	1	ADMINISTRATION COMMITTEE		

**FROM:** James D. Herberg, General Manager  
Originator: Lorenzo Tyner, Assistant General Manager

### SUBJECT:

### SECTION 115 TRUST PENSION ACCOUNT CONTRACT AWARD

### GENERAL MANAGER'S RECOMMENDATION

RECOMMENDATION: Recommend to the Board of Directors to:

- A. Approve Professional Services Agreements to ~~three firms: Chandler Asset Management, Inc.;~~ PFM Asset Management, Inc.; and Public Agency Retirement Services to establish and oversee Orange County Sanitation District's Internal Revenue Service (IRS) Code Section 115 pension trust administration and investment management services;
- ~~B. Adopt Resolution No. OC SAN 21-XX entitled: "A Resolution of the Board of Directors of Orange County Sanitation District Adopting a Post-Employment Benefit Trust Agreement with Chandler Asset Management, Inc.; and Authorizing Officers to Execute Documents and Agreements";~~
- ~~C. Adopt Resolution No. OC SAN 21-XX entitled: "A Resolution of the Board of Directors of Orange County Sanitation District Adopting a Post-Employment Benefit Trust Agreement with PFM Asset Management, Inc.; and Authorizing Officers to Execute Documents and Agreements";~~
- D. Adopt Resolution No. OC SAN 21-XX entitled: "A Resolution of the Board of Directors of Orange County Sanitation District Adopting a Post-Employment Benefit Trust Agreement with Public Agency Retirement Services; and Authorizing Officers to Execute Documents and

Agreements”; and

- E. Authorize staff to make an initial investment of up to \$15 million into the Section 115 pension trusts.

## **BACKGROUND**

The Orange County Sanitation District (OC San) provides pension benefits to its employees through the Orange County Employee Retirement System (OCERS) at an annual cost of approximately \$15 million. Staff continually examines strategies to support and minimize these costs. After an initial presentation, the Administration Committee directed staff to provide additional information and analysis of options to address funding these benefits ranging from advance payments to implementing an Internal Revenue Service Code Section 115 Trust Pension Account (115 Trust).

Staff researched and presented different options for Board consideration. All options involve moving funds from OC San’s investment portfolio to a different investment vehicle with an opportunity to obtain higher yields. Once contributed into one of these strategies, fund use is limited to pension costs. The Board directed OC San staff to move forward with implementing a Section 115 Trust.

## **RELEVANT STANDARDS**

- Ensure the public’s money is wisely spent
- Ensure that investment proposals and decisions are based on clearly defined standards

## **PROBLEM**

OC San has normal annual pension costs of approximately \$15 million per year. Unfunded pension liabilities can also accrue resulting from lower than expected OCERS investment returns or other actuarial assumptions, significantly increasing OC San’s pension costs.

## **PROPOSED SOLUTION**

Award three contracts to establish a Section 115 Trust for OC San and make an initial investment of up to \$15 million. Using three firms provides OC San additional investment diversity. This approach also allows for a more thorough evaluation of each firm’s performance. At the end of the evaluation period, OC San can, at its discretion, continue with all three firms or choose to terminate the contract of one or more of the firms.

## **TIMING CONCERNS**

A delay in the establishment and funding of the Section 115 Trust can result in missed investment earnings opportunities.

## **RAMIFICATIONS OF NOT TAKING ACTION**

OC San will not have the opportunity to diversify investments and potentially gain higher returns than the current investment portfolio.

## PRIOR COMMITTEE/BOARD ACTIONS

September 2020 - The Board directed staff to advertise a Request for Proposals to select a multiple-employer Internal Revenue Service Code Section 115 Trust Pension Account.

June 2020 - Information Item provided to the Administration Committee.

## ADDITIONAL INFORMATION

A Request for Proposal was advertised on February 4, 2021. OC San received four responsive proposals valid for 180 calendar days from the opening. Proposals were received on March 9, 2021 from California Public Employees' Retirement System; Chandler Asset Management, Inc.; PFM Asset Management, Inc.; and Public Agency Retirement Services. A Staff Evaluation Committee consisting of four representatives from the Financial Management Division reviewed and ranked each of the proposals in accordance with the evaluation process set in OC San's Purchasing Ordinance. A representative from the Purchasing and Contracts Administration Division participated in the evaluation process as a non-voting member. The proposals were evaluated according to work plan; understanding and approach; related experience; and team and staff qualifications.

Individual scoring was the chosen method of evaluation for this procurement. Members of the team performed an independent review of the proposals and later met as a group with the Buyer to discuss their preliminary scores and discuss any questions/concerns they had. Proposals were evaluated based on the following criteria:

Criterion	Weight
Qualifications & Experience of Firm	25%
Proposed Staffing & Project Organization	20%
Work Plan	10%
Portfolio Performance	15%
Presentation/Interview	10%
Cost	20%

The evaluation team first reviewed and scored the proposals based upon the first four criteria listed above.

Rank	Proposer	Criterion 1 (Max 25%)	Criterion 2 (Max 20%)	Criterion 3 (Max 10%)	Criterion 4 (Max 15%)	Subtotal Score (Max 70%)
1	Public Agency Retirement Services	23%	18%	9%	13%	63%
2	PFM Asset Management, Inc.	22%	18%	8%	13%	61%

3	Chandler Asset Management, Inc.	21%	17%	8%	12%	<b>58%</b>
4	California Public Employees' Retirement System	18%	15%	7%	10%	<b>50%</b>

Based on the evaluation results, there was a natural break between the top three proposers and the remaining proposer. Therefore, the evaluation team deemed it not necessary to move forward with California Public Employee's Retirement System. The evaluation team also determined that, based on the proposals received, interviews were not necessary. All proposals were accompanied by a sealed cost proposal and the cost proposals were opened and scored for the remaining three proposers.

Rank	Proposer	Subtotal Score (Max 70%)	Cost (Max 20%)	Total Weighted Score (Max 90%)
1	Chandler Asset Management, Inc.	58%	20%	<b>78%</b>
2	Public Agency Retirement Services	63%	11%	<b>74%</b>
3	PFM Asset Management, Inc.	61%	11%	<b>72%</b>

OC San negotiated contracts with these three proposers. Based on the above, staff recommends approval of Professional Service Agreements to Chandler Asset Management, Inc.; PFM Asset Management, Inc.; and Public Agency Retirement Services.

## CEQA

N/A

## FINANCIAL CONSIDERATIONS

This request complies with authority levels of OC San's Purchasing Ordinance.

## ATTACHMENT

*The following attachment(s) may be viewed on-line at the OC San website ([www.ocsan.gov](http://www.ocsan.gov)) with the complete agenda package:*

- Draft Service Agreements
- Resolutions