



SUMMARY REPORT

Agenda Date: 5/19/2026

To: Board of Supervisors

Department or Agency Name(s): Auditor-Controller-Treasurer-Tax Collector; County Executive's Office

Staff Name and Phone Number: Erick Roeser 707-565-3285; Andrew Sturmfels 707-565-8565; Kathleen Parnell 707-565-6124

Vote Requirement: Majority

Supervisorial District(s): Countywide

Title:

Establishment of Section 115 Combination Trust

Recommended Action:

1. Adopt a Resolution establishing an Internal Revenue Code Section 115 Combination Trust for the purpose of prefunding pension obligations (GASB 68) and Other Post-Employment Benefits (OPEB) (GASB 75); and
2. Authorize the transfer of current OPEB Trust assets into the Combination Trust administered by Public Agency Retirement Services (PARS) and the dissolution of the current OPEB-only Trust account; and
3. Authorize the County Executive to negotiate and execute an Agreement for Administrative Services with Phase II Systems doing business as PARS, in a substantially similar form and subject to County Counsel approval, along with any related agreements or plan documents; and
4. Appoint the County Executive as Plan Administrator and authorize the County Executive to execute all necessary agreements, including the Adoption Agreement and take actions required to implement and maintain the Combination Trust.

Executive Summary:

The County has long taken a disciplined approach to managing its retirement liabilities. In 2008, it established a Section 115 Trust for Other Post-Employment Benefits (OPEB), enabling systematic prefunding of retiree health obligations and strengthening long-term financial stability. The proposed action would establish a Section 115 Combination Trust to expand this strategy and provide further flexibility in funding future retirement costs.

A Section 115 trust is an irrevocable governmental trust authorized under Internal Revenue Code Section 115 that allows public agencies to prefund both pension and retiree healthcare obligations under a single structure. Accordingly, the Section 115 Combination Trust (Combination Trust) would support both retiree healthcare and pension obligations through two sub-accounts: (1) an OPEB account for retiree healthcare, and (2) a Pension account to support rate stabilization and unfunded liability management. The County's existing OPEB-only Trust assets would be transferred into the new Combination Trust OPEB sub-account and continue under current investment strategies, and the existing Trust would dissolve. A Pension sub-account would be created for future use, subject to Board direction, allowing the County to build a pension stabilization reserve in addition to continuing its focus on unfunded liabilities.

Overall, the Combination Trust would function as a long-term financial management tool, enabling the County to set aside resources during periods of fiscal stability while maintaining flexibility to respond to changing economic conditions and policy priorities.

The Combination Trust would be established through Phase II Systems DBA Public Agency Retirement Services (PARS), which administers the County's existing OPEB Trust, and the County Executive would be appointed Plan Administrator. PARS would continue to be compensated under the same asset fee structure as the existing OPEB Trust, but there are no setup costs, minimum contribution requirements, or incremental fees in moving to the Combination Trust unless and until the Pension sub-account is funded.

Discussion:

Over the past two decades, the County has taken proactive measures to responsibly manage its retirement obligations, including establishing the OPEB Trust in 2008 (Resolution 08-0559), making consistent prefunding contributions, issuing Pension Obligation Bonds, and supporting conservative actuarial practices. Collectively, these actions have improved fiscal sustainability and reduced exposure to retirement cost volatility.

Many public agencies have shifted from traditional reserves to structured prefunding to address rising pension and OPEB costs. A Section 115 Trust provides a tax-exempt, legally compliant mechanism to set aside funds for these obligations. The County's current OPEB-only Trust would be restructured into the Combination Trust, enabling a more integrated and flexible approach to prefunding and long-term financial planning. This is consistent with the current structure of the County's existing OPEB Trust and the County is required to re-take these steps to adopt the Combination Trust to add the pension sub-account. The Trust Administrator, Trustee and Plan Administrator of the County's existing OPEB Trust will all remain the same under the Combination Trust.

Under a Section 115 trust, public agencies can prefund both pension and retiree healthcare obligations under a single structure. Assets are restricted for benefit purposes, invested for long-term growth, and accumulate earnings on a tax-advantaged basis. Contributions are discretionary and may be adjusted over time.

Because Section 115 trusts are structured as dedicated benefit trusts rather than operating government funds, they may be invested in diversified long-term portfolios that are not subject to the same statutory investment limitations governing typical California public funds. This broader investment flexibility allows the County to target higher long-term returns at appropriate levels of risk, thereby improving the effectiveness of prefunding over time.

Key benefits of establishing the Combination Trust include:

- Irrevocable Asset Protection: Assets are legally restricted for pension and OPEB purposes
- Flexible Investment Options: Broader strategies than County Investment Pool with ability to maintain separate investment strategies for OPEB and pension sub-accounts
- Tax-Exempt Earnings: Investment gains are not subject to federal income tax
- Budget Stabilization: Can be used to smooth fluctuations in pension contribution rates
- GASB Compliance: Supports reporting under GASB 68 and 75 with separate accounting
- Administrative Efficiency: Combined structure benefits from economies of scale and lower fees
- IRS-Reviewed Structure: Utilizes a PARS-administered trust supported by an IRS Private Letter Ruling

Unlike direct pension contributions, the Combination Trust Pension sub-account serves primarily as a stabilization reserve. Funds can be accumulated in alignment with a Board-approved funding strategy and

used to support employer contributions, address policy changes or manage cost increases. Annual actuarial determined pension contributions, consisting of both normal cost and Unfunded Actuarial Accrued Liability (UAAL) payments, will continue to be made directly to the Sonoma County Employees' Retirement Association (SCERA). Annual employer contributions to fund the existing OPEB Trust would be redirected to the new OPEB sub-account in the Combination Trust. Staff will bring a Pension sub-account funding policy to the Board at FY 26-27 budget hearings.

The Combination Trust would be administered through PARS, which administers the County's current OPEB Trust. As the Trust administrator, PARS' duties include but are not limited to monitoring the County's contributions and trust activity, preparing regular reporting, coordinating with the custodian and investment manager, coordinating periodic audits of the trust, and overseeing compliance with applicable laws and GASB requirements. PARS has provided Trust administration services to the County since 2008, following a Request for Proposals (RFP). Since then, the OPEB balance has grown significantly, as a result of both contributions and investment performance. Combination Trust administration services are a niche market and only a few investment providers have obtained the necessary IRS Private Letter Rulings to ensure tax-exemption on investment returns. Continuing with PARS as the Combination Trust administrator provides the County with the greatest security and flexibility in its investments and accordingly the County will execute a single source waiver with the agreement. PARS will be compensated based upon the balance of Trust's total assets, using the same fee schedule as for the OPEB-only Trust. US Bank will continue to be the discretionary Trustee.

The County Executive will be appointed Plan Administrator. In addition to executing the agreement for administrative services with PARS, the County Executive will also be required to execute an adoption agreement for the Combination Trust, a Trustee Agreement with US Bank, and a directive to PARS, which will direct the transfer of assets from the County's existing OPEB trust to the Combination Trust, and will terminate the agreement associated with the OPEB Trust. If the Board adopts the attached Resolution to establish the Combination Trust, the County will be agreeing to the Public Agencies Post-Employment Health Care Plan Master Plan Document (On File Attachment 4) Public Agencies Post-Employment Benefits Trust Agreement (On File Attachment 3), which includes an indemnification and hold harmless provision of the Trustee by the Employer (County) arising as a result of the County's active or passive negligent act or Commission or willful misconduct in the execution of performance of its duties under the Trust Agreement

Establishing a Combination Trust aligns with the County's strategic approach to managing retirement liabilities by strengthening long-term fiscal stability while preserving flexibility for future decisions. Future contributions to the sub-accounts will be determined based on approved available resources and funding policies.

Approval of the recommended action to establish a Combination Trust would create a flexible, scalable and comprehensive structure to address the County's long-term pension and OPEB liabilities in alignment with public sector best practices and the County's long-term financial strategy. If the Board does not approve the recommended action to establish a Combination Trust, the current OPEB Trust would remain in place without any changes.

Strategic Plan:

N/A

Racial Equity:

Was this item identified as an opportunity to apply the Racial Equity Toolkit?

No

Prior Board Actions:

06/27/2008: Authorize establishment of an Other Post Employment Benefits (OPEB) trust with Public Agency Retirement System (PARS); Resolution #08-0559

FISCAL SUMMARY

Expenditures	FY25-26 Adopted	FY26-27 Projected	FY27-28 Projected
Budgeted Expenses			
Additional Appropriation Requested			
Total Expenditures			
Funding Sources			
General Fund/WA GF			
State/Federal			
Fees/Other			
Use of Fund Balance			
General Fund Contingencies			
Total Sources			

Narrative Explanation of Fiscal Impacts:

There is no cost associated with establishment of the Combination Trust, and the county will continue to make actuarially determined contributions to SCERA and for OPEB liabilities. Staff will return during FY 26-27 budget hearings with policy recommendations for payments to the pension account of the Combination Trust. Until that time, pension pre-payments will continue in line with current board policy.

Staffing Impacts:			
Position Title (Payroll Classification)	Monthly Salary Range (A-I Step)	Additions (Number)	Deletions (Number)

Narrative Explanation of Staffing Impacts (If Required):

N/A

Attachments:

1. Resolution Approving the Adoption of the Public Agencies Post-Employment Benefits Trust
2. Draft Agreement for Administrative Services for PARS Combination Trust

Related Items "On File" with the Clerk of the Board:

1. Public Agencies Post-Retirement Health Care Plan Trust Agreement (amended and restated as of May 16, 2007)
2. Public Agencies Post-Retirement Health Care Plan Master Plan Document (amended and restated as of May 16, 2007)
3. Public Agencies Post-Employment Benefits Trust Agreement (Effective November 5, 2014)
4. Public Agencies Post-Employment Health Care Plan Master Plan Document (Effective November 5, 2014)
5. Sample Adoption Agreement