



May 1, 2018

The Honorable Ricardo Lara  
Chair, Senate Appropriations Committee  
State Capitol  
Sacramento, CA 95814

**RE: Senate Bill 1413 (Nielsen) – Support [As Amended April 25, 2018]**

Dear Senator Lara:

The California Special Districts Association (CSDA) and the California State Association of Counties (CSAC) are pleased to support Senate Bill 1413 (Nielsen), which seeks to provide the California Public Employees' Retirement System (CalPERS) the authority to establish a Pension Prefunding Trust Program (PPTP).

The PPTP will allow CalPERS to establish, in accordance with Section 115 of the Internal Revenue Code (IRC), an irrevocable trust (115 Trust) through which eligible California public agency employers may prefund their future annual pension contributions. The PPTP will also provide an additional option for employers to pay down their unfunded liability as part of a defined benefit plan. A 115 Trust is exempt from taxation under Section 115 of the IRC; set up to benefit from the same tax-exempt status of the governmental employer who establishes and adopts the trust. Under CalPERS, the PPTP will allow eligible public agencies to direct funds into the 115 Trust that, once deposited in the trust, can only be used to meet pension obligations.

Public agencies that utilize the 115 Trust established through SB 1413 would receive the benefits of being able to offset their unfunded pension obligations by an amount equal to their balance in the trust, the ability to smooth annual CalPERS rate adjustments by drawing on the trust, increase the diversity of their investments beyond general fund investments, and potentially improve their bond ratings.

Although 115 Trusts are currently available to public agencies through the private market, agencies would benefit from a CalPERS managed trust through reduced overhead and fees, streamlined transfers from the fund to CalPERS to pay for pension obligations, and an established working relationship.

Given the projected increases in pension costs resulting from a combination of investment losses, actuarial adjustments, and reduced amortization periods, public agencies have been seeking additional financial tools that would assist them with greater financial stability and predictability. The PPTP tool CalPERS will be able to provide our agencies as a result of SB 1413 would be a significant resource that would exponentially offset the one-time \$695,140 cost to the state for implementing the bill.

For these reasons, we support Senate Bill 1413. Please feel free to contact Dillon Gibbons (CSDA) at 916-442-7887, or Dorothy Johnson (CSAC) at 916-650-8133 if you have any questions.

Sincerely,



Dillon Gibbons  
Legislative Representative



Dorothy Johnson  
Legislative Representative

CC: The Honorable Jim Nielsen  
Members, Senate Appropriations Committee  
Robert Ingenito, Consultant, Senate Appropriations Committee  
Chantelle Denny, Consultant, Senate Republican Caucus