SUBJECT: Approval of First Amendment to the Trust Agreement between the City of Sunnyvale, PFM Asset Management, LLC, and U.S. Bank National Association for the Sunnyvale Post-Employment Welfare Benefits (Retiree Medical) Program

BACKGROUND
On December 7, 2010 Council approved the City entering into a Trust Agreement with PFM Asset Management, LLC (PFM) as investment manager and U.S. Bank National Association (U.S. Bank) as Trustee (RTC 10-326). Approval of the Trust Agreement was the final step required to allow the City to formally fund its Other Post Employment Benefits (OPEB) Trust for retiree medical benefits. The Trust Agreement established the relationship, duties, and responsibilities amongst the three parties involved with the Trust: the City (Employer), PFM (the Trust Administrator) and U.S. Bank (the Trustee).

EXISTING POLICY
Fiscal Sub-Element E.2.6: An Actuarial Retiree Medical Reserve will be maintained at a level that is deemed adequate to meet projected liabilities as determined by an actuarial evaluation. This Reserve should meet the GASB reporting requirements for these future costs.

DISCUSSION
As part of the implementation of the OPEB Trust, staff requested a private letter ruling from the Internal Revenue Service (IRS) to ensure that the earnings of the OPEB Trust are tax exempt. In review of the Trust Agreement in preparation for the IRS ruling request, it was determined that a first amendment is needed to provide further clarification regarding future amendments or termination of the Trust or the merger or transfer of assets in the Trust.

The first amendment does not change the substance of the agreement but rather expands and amends language in Trust Section X. Amendment, Merger, Transfer or Termination to provide better clarification, particularly in regards to taxability. For example, a qualified trust is defined in the first amendment so that if the City decided to merge assets with another trust, the other trust must also have the same tax exempt status. The first amendment has been reviewed by PFM and U.S. Bank as well as the IRS.
FISCAL IMPACT
There is no fiscal impact to approve the first amendment to the OPEB Trust Agreement.

PUBLIC CONTACT
Public contact was made by posting the Council agenda on the City's official-notice bulletin board outside City Hall, at the Sunnyvale Senior Center, Community Center and Department of Public Safety; and by making the agenda and report available at the Sunnyvale Public Library, the Office of the City Clerk and on the City's Web site.

RECOMMENDATION
Staff recommends that Council approve the attached amendment to the Trust Agreement and authorize the City Manager to sign it.

Reviewed by:

Grace K. Leung Director, Finance
Prepared by: Therese Balbo, Finance Manager

Approved by:

Gary M. Luebbers
City Manager

Attachments
A. Post-Employment Welfare Benefits Program Trust dated December 7, 2010
B. First Amendment to Post-Employment Welfare Benefits Program Trust
POST-EMPLOYMENT WELFARE BENEFITS PROGRAM TRUST

By and among

City of Sunnyvale

PFM ASSET MANAGEMENT LLC,
as Trust Administrator

and

U.S. Bank,
as Trustee

Dated December 7, 2010
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**EXHIBIT A**

- PLANS ................................................................. A-1

**EXHIBIT B**

- EMPLOYER'S INITIAL CONTRIBUTION ........................................... B-1

**EXHIBIT C**

- CERTIFICATE OF EMPLOYER .................................................... C-1
This Trust Agreement is made this 7th day of December, 2010 (this "Agreement"), among City of Sunnyvale ("Employer"), U.S. BANK NATIONAL ASSOCIATION (together with any successor trustee hereunder, "Trustee") and PFM ASSET MANAGEMENT LLC (together with any successor trust administrator hereunder, "Trust Administrator");

WHEREAS, Employer wishes to provide for retiree health benefits and other post-employment benefits other than pension benefits ("OPEB") ("Benefits") for employees and other participants (all collectively referred to herein as "Beneficiaries") as and to the extent provided in its benefit plans attached to this Agreement as Exhibit A, as amended or supplemented from time to time ("Plans") and as described in Section I, below; and

WHEREAS, Employer and Trustee desire to establish a trust ("Trust"), which will be an entity separate from Employer for the exclusive purpose of providing funds to pay Benefits, with the intent that (i) the income of the Trust will be exempt from federal and state income tax (under Internal Revenue Code Section 115 with respect to federal income tax), (ii) transfers to the Trust will not be taxable to Beneficiaries, (iii) the Trust will qualify for purposes of Governmental Accounting Standards Board Statement 45 ("GASB 45") pursuant to GASB 45, and (iv) all assets of the Trust are and will be irrevocably dedicated to, and shall be used for the exclusive purpose of, providing for payments of Benefits and for paying expenses of administering the Trust, and will not be available to any creditors of Employer; and;

WHEREAS, Trustee is willing to accept the Trust; and

WHEREAS, the Trust is authorized under California Government Code Sections 53201, 53206, and 53622, and Section 5 of Article XIII B of the California Constitution; and

WHEREAS, the Trust is an entity separate from Employer for the exclusive benefit of the Beneficiaries and not of Employer; and

WHEREAS, the indicia of ownership of Trust assets shall be held by Trustee at all times and the Trust assets shall not be considered funds or assets of Employer for any purpose; and

WHEREAS, PFM Asset Management LLC is willing to serve as Trust Administrator of the Trust with the rights and duties of the Trust Administrator provided in this Agreement ("Trust Administrator").

WHEREAS, Trust Administrator shall have exclusive authority and responsibility for the management, disposition and investment of Trust assets in its sole judgment in accordance with this Agreement, without any requirement of consent by Employer or, except as expressly provided herein, of notice to Employer; and
WHEREAS, the Trust does not contravene Article XVI, Section 6 of the California Constitution by reason of the fact that the Trust is and will remain an entity different and separate from Employer; and

WHEREAS, Employer is a state or political subdivision or other entity the income of which is exempt from federal income tax under Internal Revenue Code Section 115; and

WHEREAS, Trustee is a national banking association and a corporate trustee, with all requisite powers and capabilities to act as Trustee and administer the Trust as set forth in this Agreement; and

NOW, THEREFORE, Employer hereby irrevocably establishes the Trust with Trustee to be held, administered, and distributed by Trustee as provided in this Agreement, and Trust Administrator, Employer, and Trustee agree as follows:

Section I. Exhibits.

The following Exhibits are attached hereto and by this reference incorporated herein and made a part hereof:

(a) Exhibit A to this Agreement contains a copy or other description of the Plans and defines the terms “Beneficiaries,” “Plans” and “Benefits,” as used in the preamble to this Agreement.

(b) Exhibit B to this Agreement describes Employer’s initial contribution to the Trust.

(c) Exhibit C to this Agreement is a copy of the Investment Policy Statement delivered by Trust Administrator to Employer, which is satisfactory to Employer.

Section II. General Trust Provisions.

(a) The Trust is irrevocable.

(b) The principal of the Trust, together with any earnings thereon, shall be held by Trustee separate and apart from any assets of Employer. All Trust assets and all income thereon are irrevocably dedicated to, and shall be used for the exclusive purpose of, making payments of Benefits to or for the benefit of Beneficiaries and for paying expenses of administering the Trust. At no time will any Trust assets be used for, or diverted to, any other purposes.

(c) The Trustee shall have exclusive right, title and interest in and to the assets of the Trust.

(d) Assets held in the Trust may not be used to satisfy claims of creditors of Employer, except to the extent that such are claims to receive Benefits.
(e) Beneficiaries shall have no preferred claim, lien on, or security interest in, or any beneficial interest in any particular assets of the Trust. Beneficiaries shall be entitled to receive payments of assets of the Trust only when, as and if determined by Employer in accordance with this Agreement.

(f) Except to the extent allowed by law, the expectation of any Beneficiary to receive any Benefits is not subject to attachment or garnishment or other legal process by any creditor of any such Beneficiary, nor shall any Beneficiary have the right to alienate, anticipate, commute, pledge, encumber or assign any Benefit until the same shall have been paid.

(g) In its sole discretion, Employer from time to time at any time may make (or cause to be made) additional contributions of cash or other assets acceptable to Trustee to the Trust, from employer contributions, employee contributions or any other source. Neither Trustee, or any Beneficiary or any party to or any other entity referred to in this Agreement shall have any right to compel such additional contributions. All such contributions and all income thereon are irrevocably dedicated to, and shall be used for the exclusive purpose of, making payments of Benefits and for paying expenses of administering the Trust.

(h) Trustee shall not be responsible for enforcing the payment of any contributions to the Trust.

(i) Trust Administrator shall have exclusive authority and responsibility for the management and investment of Trust assets, and Trustee is authorized and directed to comply with the written directions of Trust Administrator concerning Trust assets. Trust Administrator shall not issue any such direction in violation of the terms of the Trust.

(j) No Beneficiary shall be deemed a third-party beneficiary of this Agreement, nor shall any Beneficiary have the right to compel any payment of any amount from the assets of the Trust or to enforce any duties of any party to or other entity referred to in this Agreement.

(k) Employer shall appoint a responsible accounting firm to conduct an annual audit of the Trust at the sole expense of Employer. The results of such audit shall be provided to Trust Administrator, to Trustee and, to Employer.

Section III. Payments from Trust.

(a) The Employer shall determine the amount of Benefits payable under the Plans and shall have exclusive authority and responsibility to determine the amount of such Benefits to be paid out of the assets of the Trust and the amount which shall be paid to each Beneficiary. Employer shall direct Trustee in writing to disburse amounts in respect of Benefits from the Trust to disburse amounts in respect of Benefits directly to or for the benefit of Beneficiaries. No assets of the Trust may be paid to Employer at the instructions of the Employer.

(b) Except as otherwise provided by law, Trustee shall be fully protected in making payments out of the Trust at the direction of Employer.
(c) Trustee’s sole obligation as to disbursements from the Trust in respect of Benefits shall be to observe the instructions of Employer to the extent that the Trust has assets to make disbursements as instructed by Employer. Nothing contained in the Trust or any Plan shall constitute a guarantee that Trust assets will be sufficient to pay any Benefit to any Beneficiary.

(d) Trustee is authorized to disburse amounts from the Trust to pay the expenses of administering the Trust as expressly authorized by this Agreement, or as instructed in writing by Trust Administrator.

Section IV. Investments.

(a) Trustee shall hold and administer Trust assets without distinction between principal and income.

(b) Trustee, in the exercise of its fiduciary judgment or as instructed by Trust Administrator, may commingle, hold and invest as one fund, for investment or administration purposes, the assets (or a portion of the assets) of the Trust and similar trusts; provided that Trustee shall account separately for all assets, income, gains, losses, distributions and expenses of Trust.

(c) Trust assets shall be invested only in Permitted Investments. Trust Administrator shall have full power and authority to invest and reinvest Trust assets in any Permitted Investments permitted under this Agreement.

(d) Transactions in Permitted Investments which require execution through a broker shall be executed through such broker or brokers as Trust Administrator shall select. The indicia of ownership of Trust assets shall be held by Trustee at all times, and the Trustee shall serve as sole custodian with respect to Trust assets.

(e) Any entity affiliated with Trustee may act as broker or dealer to execute transactions, including the purchase of securities directly distributed, underwritten or issued by an entity affiliated with Trustee, at standard commission rates, mark-ups or concessions, and to provide investment services with respect to the Trust.

(f) To the extent directed by Trust Administrator, Trustee is authorized and empowered:

(1) To invest and reinvest Trust assets, together with the income therefrom, in Permitted Investments.

(2) To maintain accounts at, execute transactions through, and lend on an adequately secured basis stocks, bonds or other securities to, any brokerage firm including any firm that is an affiliate of Trustee.
(3) To vote upon or tender any stocks, bonds or other securities and to give general or special proxies or powers of attorney with or without power of substitution; to exercise any conversion privileges, subscription rights or other options of which Trustee receives actual notice, and to make any payments incidental thereto; to consent to or otherwise participate in corporate reorganizations or other changes affecting corporate securities and to delegate discretionary powers and to pay any assessments or charges in connection therewith; and generally to exercise any of the powers of an owner with respect to stocks, bonds, securities or other property held in Trust.

(4) To deposit or invest all or any part of the assets of the Trust in savings accounts or certificates of deposit or other deposits in a bank or savings and loan association or other depository institution, including Trustee or any of its affiliates; provided that, with respect to such deposits with Trustee or an affiliate, the deposits bear a reasonable rate of interest.

(5) To invest and reinvest any Trust assets in one or more collective investment funds.

(6) To hold, manage, improve, repair and control all investment property, real or personal, forming part of the Trust; to sell, convey, transfer, exchange, partition, pledge, encumber, lease for any term, even extending beyond the duration of this Trust, and otherwise dispose of the same from time to time.

(7) To take such actions as may be necessary or desirable to protect the Trust from loss due to the default on mortgages held in the Trust including the appointment of agents or trustees in such other jurisdictions as may seem desirable, to transfer property to such agents or trustees, to grant to such agents such powers as are necessary or desirable to protect the Trust, to direct such agent or trustee, or to delegate such power to direct, and to remove such agent or trustee.

(8) To settle, compromise or abandon all claims and demands in favor of or against the Trust.

(9) To borrow money from any source and to execute promissory notes, mortgages, or other obligations and to pledge or mortgage any Trust assets as security.

(10) To designate and engage the services of such agents, representatives, advisers, counsel and accountants, any of whom may be an affiliate of Trustee or a person who renders services to such an affiliate and, as part of its expenses under this Agreement, to pay their reasonable expenses and compensation.

(11) To hold in cash, without liability for interest, such portion of the Trust assets as is pending investment, or payment of expenses, or the distribution of Benefits.
(12) To make, execute and deliver, as Trustee, any and all deeds, leases, mortgages, conveyances, waivers, releases or other instruments in writing necessary or appropriate for the accomplishment of any powers listed in this Agreement.

(13) To register securities, or any other property, in its name or in the name of any nominee, including the name of any affiliate or the nominee name designated by any affiliate, with or without indication of the capacity in which property shall be held, or to hold securities in bearer form and to deposit any securities or other property in a depository or clearing corporation.

(14) To pay or cause to be paid from the Trust any and all real or personal property taxes, income taxes or other taxes with respect to the Trust.

(15) To enter into interest rate, currency, cash-flow, indexed (including indexed to equities) and other types of swaps and hedges designed to hedge payment, interest rate, currency, duration, spread or similar exposure related to any investment or program of investments of Trust assets or to manage asset/liability matching between investments and Benefits to be paid therefrom.

(16) To exercise all of the further rights, powers, options and privileges granted, provided for, or vested in trustees generally under the laws of the State of California so that the powers conferred upon Trustee herein shall not be in limitation of any authority conferred by law or under this Agreement, but shall be in addition thereto; provided that such powers satisfy applicable requirements (if any) of the laws of the State of California.

(17) Generally to do all other acts which Trustee deems necessary or appropriate for the protection of the Trust.

Section V. Trust Administrator Services and Trust Administrator and Trustee Compensation.

(a) Trust Administrator shall determine the asset allocation of investments for Trust assets in its judgment from time to time in light of the anticipated amounts of cash required by the Trust for distributions and other expenses, and the principles set forth in the Investment Policy Statement. Trust Administrator shall execute the Investment Policy Statement by buying and selling investments for the Trust as described in Section IV hereof. Initially, the Trust assets shall be invested in specified investment funds in specified proportions as set forth in the Investment Policy Statement. Thereafter, Trust Administrator shall exercise its professional judgment with respect to investments and shall have no obligation to consult with or obtain approval of Employer.

(b) Trust Administrator shall reassess and may alter the asset allocation of the Trust at least annually. Trust Administrator shall “rebalance” the investments of the Trust at least annually to maintain the ratios of the asset allocation of the Trust then in effect, and shall consult with the Actuary and Employer at least annually to determine whether there are reasons to revise the Investment Policy Statement. Trust Administrator shall continuously review the performance
of the investment of Trust assets and, in its judgment, shall purchase or sell Permitted Investments for the Trust. In addition, Trust Administrator shall provide to Employer and Trustee a quarterly analysis of the performance of the investments of the Trust and statement of any changes in investments made in such quarter. The asset information for such analysis shall be supplied to Trust Administrator by Trustee.

(c) Trustee shall have sole custody of cash, securities and other assets of the Trust. Trust Administrator is authorized to give instructions to Trustee as to deliveries of securities and payments of cash for the account of the Trust. Trust Administrator shall not take possession of or act as custodian for the cash, securities or other assets of the Trust and shall have no responsibility in connection therewith.

(d) (1) Except as otherwise stated herein, the Trust shall incur total costs not exceeding 1.0% (one percent) per year of the Net Assets of the Trust for the payment of Trust Administration Fees. “Net Assets” means the net market value of all cash and investments assets as of the end of the most recent quarter as determined and reported by Trustee. “Trust Administration Fees” means the fees of the applicable investment funds, the fees for all services of Trust Administrator, and fees of Trustee in its role as custodian of the Trust assets (which fees of Trustee shall be paid by Trust Administrator to Trustee).

(2) At the end of each calendar quarter, Trust Administrator shall submit to Trustee, with a copy to Employer, an invoice for payment of the Trust Administration Fees for the preceding calendar quarter, which amount shall not exceed 0.25% (one-quarter of one percent) of the Net Assets of the Trust. Trust Administrator is authorized to instruct Trustee to disburse funds from the Trust for the payment of the Trust Administration Fees to Trust Administrator. If either Trust Administrator or Trustee shall serve for less than the entire quarter, the compensation shall be pro-rated.

(3) For services provided by Trustee to the Trust pursuant to this Agreement (exclusive of the services provided by Trustee as custodian, the fees for which are paid as set forth in paragraph (d)(1) above), Trustee shall be paid an annual fee not to exceed $1,000 (the “Trustee Fee”). Trustee is authorized to disburse funds from the Trust to itself for the payment of the Trustee Fee.

(4) If and to the extent that Trustee shall request Trust Administrator to render services to the Trust other than those to be rendered by Trust Administrator hereunder, such additional services shall be compensated separately on terms to be agreed upon between Trust Administrator and Trustee.

(e) (1) Trust Administrator shall furnish at its own expense all necessary administrative services, office space, equipment, clerical personnel, telephone and other communication facilities, and executive and supervisory personnel required to perform its duties under this Agreement.
Except as expressly provided otherwise herein, Trustee is authorized to disburse funds from the Trust to pay the expenses of administering the Trust, including, without limitation, taxes, payable by the Trust, fees and expenses of legal counsel to the Trust, if any, and, insurance premiums.

(f) Trust Administrator hereby represents that it is a registered investment advisor under the Investment Advisers Act of 1940. Trust Administrator shall immediately notify Employer and Trustee if at any time during the term of this Agreement it is not so registered or if its registration is suspended. Trust Administrator agrees to perform its duties and responsibilities under this Agreement with reasonable care as provided by law. The federal securities laws impose liabilities under certain circumstances on persons who are required to act in good faith. Nothing in this Agreement shall in any way constitute a waiver or limitation of any rights which Employer, Trust Administrator or Trustee may have under any federal securities laws.

(g) Employer and Trustee understand that Trust Administrator performs investment advisory services for various other clients which may include investment companies, commingled trust funds and individual portfolios. Employer and Trustee agree that Trust Administrator may give advice or take action with respect to any of its other clients which may differ from advice given or the timing or nature of action taken with respect to the Trust, so long as it is the policy of Trust Administrator, to the extent practical, to allocate investment opportunities to the Trust over a period of time on a fair and equitable basis relative to other clients. Trust Administrator shall not have any obligation to purchase, sell or exchange any security for the Trust solely by reason of the fact that Trust Administrator, its principals, affiliates, or employees may purchase, sell or exchange such security for the account of any other client or for themselves.

(h) Trust Administrator shall promptly give notice to Employer and Trustee if Trust Administrator shall have received written notice of the filing against it or any professional of Trust Administrator who has performed any service with respect to the Trust in the 24 preceding months, of any complaints or disciplinary actions by the Securities and Exchange Commission or any other agency or department of the United States, any registered securities exchange, the NASD, any Attorney General or any regulatory agency or authority of any State.

(i) Trust Administrator, its employees, officers and representatives, shall not be deemed to be employees, agents, partners, servants, and/or joint ventures of Employer or Trustee by virtue of this Agreement or any actions or services rendered under this Agreement.

(j) Trust Administrator shall maintain appropriate records of all its activities hereunder.

(k) Trust Administrator warrants that it has delivered to Employer and Trustee, at least five business days prior to the execution of this Agreement, Trust Administrator's current Securities and Exchange Commission Form ADV, Part II, including, without limitation, Exhibit H thereto (Trust Administrator's disclosure statement). Employer and Trustee acknowledge receipt of such disclosure statement at least five business days prior to the execution of this Agreement.
The provisions of this Agreement shall be binding on Trust Administrator and its successors and assigns, provided, however, that the rights and obligations of Trust Administrator may not be assigned without the prior written consent of Employer.

Section VI. Trustee Accounting.

(a) Trustee shall keep accurate and detailed records of all investments, receipts, disbursements, and all other transactions, including such specific records as shall be agreed upon in writing between Trust Administrator and Trustee.

(b) Within 60 days following the close of each calendar quarter (and within 60 days after removal or resignation of Trustee), Trustee shall deliver to Trust Administrator and Employer a written account of the Trust during such calendar quarter (or during the period from the close of the last preceding calendar quarter to the date of such removal or resignation), setting forth all deposits, investments, receipts, disbursements and other transactions effected by it, including a description of transfers made and income received by the Trust, all securities and investments purchased and sold with the cost or net proceeds of such purchases or sales (accrued interest paid or receivable being shown separately), all disbursements for the payment of Benefits, administrative expenses (any amounts paid to Trustee shown separately) or other costs paid from the Trust, and showing all cash, securities and other property held in the Trust at the end of such calendar quarter or as of the date of such removal or resignation, as the case may be.

(c) All securities shall be valued at fair market value as of the date of valuation, as determined by Trustee on the basis of such available information as Trustee may deem reasonable, subject to such smoothing method (for actuarial valuation purposes) that averages returns over a period of years that may be adopted by Trust Administrator and submitted in writing to Trustee.

Section VII. Standard of Care and Indemnification.

(a) All Trust assets and all income thereon shall be used for the exclusive purpose of providing for the payments of Benefits to or for the benefit of Beneficiaries and for paying expenses of administering the Trust. Trustee and Trust Administrator, when making, selling or otherwise managing investments of the funds, shall discharge their duties with respect to the investment of the funds (i) solely in the interest of, and for the exclusive purposes of making payments of Benefits to or for the benefit of Beneficiaries, maximizing the amount available for providing Benefits, minimizing Employer contributions thereto, and paying expenses of administering the Trust, (ii) with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character and with like aims, and (iii) shall diversify the investments of the assets so as to minimize the risk of loss and to maximize the rate of return, in accordance with the Investment Policy Statement.

(b) Employer, from its own funds and not from any assets of the Trust, shall indemnify Trustee and each of its affiliates (collectively, “Trustee Indemnified Parties”) against, and shall hold them harmless from, any and all loss, claims, liability, and expense, including cost
of defense and reasonable attorneys’ fees, (collectively, “damages”) imposed upon or incurred at any time by any Trustee Indemnified Party by reason of or in connection with the performance of Trustee’s services under this Agreement, except to the extent such damages resulted from such Trustee Indemnified Party’s performance (or non-performance) of its duties under this Agreement in a manner that constitutes willful misconduct or negligent breach of the standard of care articulated in Section VII(a) above.

(c) Employer, from its own funds and not from any assets of the Trust, and Trustee, solely from the assets of the Trust and not from its own assets, jointly and severally, shall indemnify Trust Administrator and each of its affiliates (collectively, “Administrator Indemnified Parties”) against, and shall hold them harmless from, any and all damages imposed upon or incurred by any Administrator Indemnified Party by reason of, or in connection with its services under this Agreement, except to the extent that such damages resulted from the Administrator Indemnified Party’s performance (or non-performance) of its duties under this Agreement in a manner that constitutes willful misconduct or negligent breach of the standard of care articulated in Section VII(a) above.

(d) The indemnification obligations provided for in this Agreement shall survive the termination of this Agreement.

Section VII. Resignation and Removal of Trust Administrator.

(a) Trust Administrator may resign at any time upon 90 days prior written notice to Employer, which notice may be waived by Employer. Employer may remove Trust Administrator upon 90 days prior written notice to Trust Administrator and the Trustee, which notice may be waived by Trust Administrator.

(b) Upon notice of Trust Administrator’s resignation, Employer shall promptly designate a successor Trust Administrator qualified to act as Trust Administrator of the Trust under the laws of the State of California, such resignation to be effective upon acceptance of appointment by such successor Trust Administrator. Employer shall not remove the Trust Administrator unless Employer shall have designated such a successor Trust Administrator who shall have agreed with Employer and Trustee to act as Trust Administrator pursuant to this Agreement.

(c) Until a successor Trust Administrator is appointed and assumes its duties as Trust Administrator under this Agreement, Trust Administrator shall be entitled to compensation for its services in accordance with Section V(e)(1) of this Agreement.

(d) Any company into which the Trust Administrator may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a party or any company to which the Trust Administrator may sell or transfer all or substantially all of its investment advisory business, shall be, with the prior written consent of Employer, the successor to such Trust Administrator.
(e) A successor Trust Administrator shall have no duty to audit or otherwise inquire into the acts or transactions of its predecessor.

Section IX. Resignation and Removal of Trustee.

(a) Trustee may resign at any time upon 90 days prior written notice to Trust Administrator, which notice may be waived by Trust Administrator. Trust Administrator may remove Trustee as provided in Paragraph b below, upon 90 days prior written notice to Trustee, which notice may be waived by Trustee.

(b) Employer shall have the power upon written instructions to Trust Administrator to cause Trust Administrator to remove Trustee (or any successor trustee) and to replace Trustee (or any such successor trustee) with a corporate Trustee satisfactory to Trust Administrator in its sole judgment.

(c) Upon notice of Trustee’s resignation or removal, Trust Administrator shall promptly designate a successor corporate Trustee qualified to act as Trustee of the Trust under the laws of the State of California, such resignation or removal to be effective upon acceptance of appointment by such successor corporate Trustee.

(d) If Trust Administrator does not designate a successor corporate Trustee, or if a successor corporate Trustee designated by Trust Administrator has not accepted its appointment within 90 days after Trustee gives notice of its resignation or receives notice of removal, Trustee may, at the expense of the Trust, apply to a court of competent jurisdiction to appoint a successor corporate Trustee.

(e) Until a successor corporate Trustee is appointed and assumes its duties, Trustee shall be entitled to compensation for its services according to its fee schedule then in effect for acting as Trustee in accordance with the Trust.

(f) Any company into which the Trustee may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a party or any company to which the Trustee may sell or transfer all or substantially all of its corporate trust business, shall be the successor to such Trustee without the execution or filing of any paper or any further act, anything herein to the contrary notwithstanding.

(g) A resigning Trustee shall transfer the Trust assets and shall deliver the books, accounts and records of the Trust to the successor corporate Trustee as soon as practicable.

(h) A resigning Trustee is authorized to reserve such amount as may be necessary for the payment of its fees and expenses incurred prior to its resignation or removal, and the Trust assets shall remain liable to reimburse the resigning or removed Trustee for any costs or fees payable to Trustee under the terms of this Agreement.
(i) A successor corporate Trustee shall have no duty to audit or otherwise inquire into the acts or transactions of its predecessor.

Section X. Amendment, Merger, Transfer or Termination.

(a) At any time that there is an existence any Trust created by Employer which satisfies the terms of Section II of this Agreement ("Qualified Trust"), at the direction of Employer, the Trust may be merged with a Qualified Trust, or all or part of its assets (net of any amount as may be reasonably necessary to pay the fees and expenses of Trust Administrator, Trustee and other expenses of the Trust) transferred to a Qualified Trust; provided, however, that no such merger may increase Trustee's obligations under this Agreement without Trustee's written approval, no such merger or transfer may render the Trust "revocable," and no such merger or transfer may adversely affect the status of the Trust as described in the preamble to this Agreement.

(b) At any time that the fair value of the assets of the Trust does not exceed the Benefits then payable under the Plans, or at any time that there is in existence a Qualified Trust, the Trust and this Agreement may be terminated at any time in writing by Trust Administrator or Employer; provided the termination does not render the Trust "revocable" or adversely affect retroactively the status of the Trust as described in the preamble to this Agreement. Upon termination of the Trust, Trust assets shall be paid out at the direction of Trust Administrator in the following order of priority: (1) payment of reasonable administrative expenses (including taxes and termination costs), (2) payment of Benefits currently payable under the Plans, and (3) to a Qualified Trust.

(c) Neither Trust Administrator nor Employer nor any entity related to any of them shall have any beneficial interest in the Trust or receive any amounts upon termination of the Trust.

(d) The Trust shall remain in existence until all assets have been distributed.

(e) Upon termination of the Trust, Trust Administrator and Trustee shall continue to have all powers provided in this Agreement as are necessary or desirable for the orderly liquidation and distribution of Trust assets in accordance with the provisions hereof.

Section XI. Miscellaneous.

(a) The Trust shall be governed by, and interpreted in a manner consistent with, the laws of the State of California and, to the extent applicable, the Internal Revenue Code.

(b) This Agreement is not a joint exercise of powers agreement, does not create a joint powers or joint action authority, and the obligations of Employer and the Trust are several and not joint. Neither Trustee nor Trust Administrator shall be responsible for any contributions, costs, Benefits, distributions, acts or omissions of Employer.
(c) Each party to this Agreement represents and warrants that the person or persons signing this Agreement on behalf of such party is authorized and empowered to sign and deliver this Agreement for such party.

(d) Employer shall notify Trust Administrator and Trustee in a separate writing of the person or persons, by office or other position of employment, who are authorized to act on behalf of Employer in all matters relating to the Trust.

(e) Trust Administrator shall notify Trustee and Employer in a separate writing of all those who are authorized to act on behalf of Trust Administrator in all matters relating to the Trust.

(f) If there is any conflict between the Plans and this Agreement, this Agreement shall control.

(g) In the event any provision of this Agreement is held to be invalid for any reason, such invalidity shall not affect any other provisions of this Agreement and this Agreement shall be construed and enforced as if the invalid provision had never been included.

(h) This Agreement may be executed in any number of counterparts, each of which shall be considered as an original.

(i) All communications under this Agreement shall be in writing and shall be deemed to have been duly given (1) on the date of receipt if served personally or by confirmed facsimile or other similar communication; (2) on the first business day after sending if sent for guaranteed next day delivery by a next-day courier service; or (3) on the fourth business day after mailing if mailed to the party or parties to whom notice is to be given by registered or certified mail, return receipt requested, postage prepaid, and properly addressed as follows:

**If to Employer:**

City of Sunnyvale  
650 West Olive Avenue  
Sunnyvale, CA 94086  
Attention: Grace Leung, Director of Finance

**If to Trust Administrator:**

PFM Asset Management LLC  
Two Logan Square, Suite 1600  
18th and Arch Streets  
Philadelphia, PA 19103  
Attention:______________________________________

**If to Trustee:**

U.S. Bank Association  
P. O. Box 64488  
St. Paul, MN 55164-0488  
Attention:______________________________________
IN WITNESS WHEREOF, and as evidence of establishment of the Trust created hereunder, the parties have caused this Agreement to be executed as of the date first above written:

[EMPLOYER]

Approved As To Form

David E. Kahn, City Attorney
Date 11/9/11

By: 

Name: Gary Luebbers
Title: City Manager

PFM ASSET MANAGEMENT LLC,
As Trust Administrator

By: 

Name: V. Jim Link
Title: Managing Director

U.S. BANK NATIONAL ASSOCIATION,

By: 

Name: John M. Olson
Title: Vice President
January 19, 2011
FIRST AMENDMENT TO
POST-EMPLOYMENT WELFARE BENEFITS PROGRAM TRUST

This First Amendment (Amendment) is adopted by the City of Sunnyvale (Employer), U.S. Bank National Association (Trustee), and PFM Asset Management LLC (Trust Administrator), collectively referred to as the parties, to be effective on and as of the date specified below (Effective Date).

RECITALS

A. On or about January 19, 2011, the parties adopted the Post-Employment Welfare Benefits Program Trust (Trust).

B. The parties now wish to amend the Trust to clarify certain provisions with respect to the amendment and termination of the Trust.

OPERATIVE PROVISIONS

NOW, THEREFORE, the parties hereby amend the Trust, effective March 20, 2012 as follows:

1. Trust Section X, Amendment, Merger, Transfer or Termination, is amended in its entirety to read as follows:

   Section X. Amendment, Merger, Transfer or Termination.

   (a) The Trust created hereunder is hereby declared to be irrevocable except as set forth herein. Employer shall, however, have the right, at any time, by an instrument in writing executed and delivered to Trustee and Trust Administrator, to amend this Trust Agreement, or to terminate the Trust; provided, however, that the duties, powers and liabilities of Trustee or Trust Administrator shall not be increased without their written consent.

   (b) Employer has reserved the right to amend or terminate the Benefits being funded by this Trust and to discontinue its contributions to the Trust. Employer shall notify Trustee in writing if the Benefits have been terminated or if Employer has determined to discontinue contributions to the Trust. Upon the termination of all Benefits, the Trust shall terminate in accordance with subsection (d), below.
(c) At any time that there is in existence any Trust created by Employer which satisfies the terms of Section II of this Agreement and the income of which inures to the benefit of Employer or to an entity that is a State, a political subdivision of a State, or an entity the income of which is excluded from gross income under Internal Revenue Code section 115 ("Qualified Trust"), at the direction of Employer, the Trust may be merged with such Qualified Trust, or all or part of its assets (net of any amount as may be reasonably necessary to pay the fees and expenses of Trust Administrator, Trustee and other expenses of the Trust) transferred to such Qualified Trust; provided, however, that no such merger may increase Trustee’s obligations under this Agreement without Trustee’s written approval, no such merger or transfer may render the Trust "revocable," and no such merger or transfer may adversely affect the status of the Trust as described in the preamble to this Agreement.

(d) Upon any termination of the Trust, the assets of the Trust then held by Trustee, except such assets as may be needed to pay expenses or liabilities of the Trust, shall first be distributed pursuant to the terms of the Plans in accordance with the written directions of Employer or Trust Administrator. Then, if there is any balance after the satisfaction of all liabilities to the Participants and their beneficiaries under the Plans, Trustee shall return said balance to Employer; provided, however, that none of the assets of the Trust will be distributed to any entity that is not a State, a political subdivision of a State, or an entity the income of which is excluded from gross income under Internal Revenue Code section 115. Unless sooner terminated, the Trust shall terminate when there shall be no assets of the Trust remaining in the hands of Trustee.

(e) The Trust shall remain in existence until all assets have been distributed.

(f) Upon termination of the Trust, Trust Administrator and Trustee shall continue to have all powers provided in this Agreement as are necessary or desirable for the orderly liquidation and distribution of Trust assets in accordance with the provisions hereof.

2. The language of this Amendment shall supersede the provisions of the Trust to the extent those provisions are inconsistent with the provisions of this Amendment. Except as amended above, the remaining provisions of the Trust shall remain in full force and effect.
IN WITNESS WHEREOF, the parties have caused this Amendment to be executed on this _______ day of ________________, 2012.

EMPLOYER
CITY OF SUNNYVALE

By: __________________________

TRUSTEE
U.S. BANK NATIONAL ASSOCIATION

By: __________________________

TRUST ADMINISTRATOR
PFM ASSET MANAGEMENT LLC

By: __________________________