



**WATER
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Establishment of an IRS Section 115 Trust for Funding
Pension Liabilities and Initial
Funding Strategies for the Trust

Zone 7 Finance Committee

January 25, 2020



Water Quality



Water Reliability



Flood Protection



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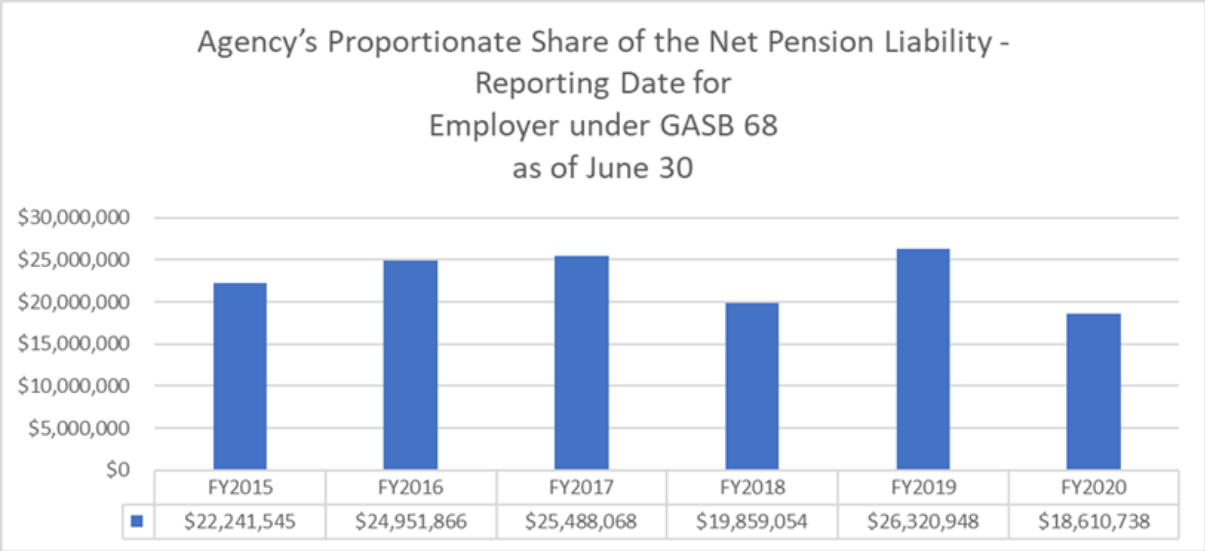
Background

- The general method for addressing long-term pension liabilities is through establishing an Internal Revenue Service (IRS) Section 115 Trust Fund to prefund future pension payments.
- Staff has had two separate discussions with the Finance Committee on establishing an IRS Section 115 Trust Fund for pension.
 - On April 28, 2020 the Finance Committee first received a presentation from Public Agency Retirement Systems (PARS)
 - On September 21, 2020, staff presented draft funding strategies to establish a Section 115 Trust.
- The Finance Committee directed staff to provide a draft policy and funding strategy for the Committee's consideration



Background Cont'd...

As reported in the Agency's audited Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2020, the proportionate share of the Agency Net Pension Liability (NPL) is \$18.6 million



Initial Funding Strategies to Establish IRS Section 115 Trust for Pension

- The Finance Committee discussed these options and provided direction to staff, including:
 - **Initial Funding:** an initial funding amount between \$1 million to \$1.5 million,
 - **Annual contributions:** The annual contributions can be made after all three reserve funds (Operating, Emergency and Reserve for Economic Uncertainties) have reached target level
 - **Maximum:** The maximum annual amount will be set at \$0.5 million
- Recommended Initial Funding Strategies:
 - An initial deposit of a fixed amount (e.g., \$100,000) or
 - An initial deposit based on a % of the FY 2019-20 NPL (e.g., 1% of \$18.6M)



Annual Contribution Funding Strategies

- Annual contributions:
 - Can be made after all three reserve funds (Operating, Emergency and Reserve for Economic Uncertainties) have reached target levels
- Annual contribution funding strategies options are shown in the table below:

Funding Strategy	FY 2019-20 Amount	Funding Percentage (%)	Funding Amount
Percent (%) of audited fiscal year end budget surplus (e.g. net revenue or over/under expenses)	\$10.4 million	1%	\$104,000
Percent of the audited fiscal year NPL	\$18.6 million	1%	\$186,000
Percent of the audited fiscal year actual employer's pension contribution	\$2.8 million	10%	\$280,000
Fixed Amount			\$100,000



Draft Policy - Plan Administration

- **Board of Directors:** The Board has the authority to establish the Trust
- **Plan Administrator:** Board appoints the General Manager
- **Trust Administrator:** Public Agency Retirement Services (PARS)
- **Trustee:** MUFG Union Bank, N.A
- **Investment Manager:** HighMark Capital

Draft Policy – Asset Allocation Strategy, Withdrawals & Actuarial

- Asset Allocation Strategies:

Asset Allocation Strategy	Equity	Fixed Income	Cash
Conservative	5% - 20%	60% - 95%	0% - 20%
Moderately Conservative	20% - 40%	50% - 80%	0% - 20%
Moderate	40% - 60%	40% - 60%	0% - 20%
Balanced	50% - 70%	30% - 50%	0% - 20%
Capital Appreciation	65% - 85%	10% - 30%	0% - 20%

- Withdrawals:

In the event of economic distress, the amounts on deposit may be used to meet the Agency’s annual employer pension obligation payments as approved by the Board.

- Actuarial Evaluation:

The Agency is not a separate participating employer under ACERA and therefore, does not have a separate accounting or actuarial valuation analysis.



Next Steps

Discuss and provide direction to staff.





Questions?

