

POLICY AND PROCEDURE

POLICY TITLE: Funding of Long-Term Pension Liability	NUMBER: 2021-01	PAGE: 1 of 4
APPROVED BY: Zone 7 Board	REVISION: 2	EFFECTIVE DATE: March 15, 2023

1.0 BACKGROUND

Zone 7 Water Agency (the "Agency") employee's retirement program is provided through the Alameda County Employees' Retirement Association (ACERA). This is a Defined Benefit plan organized under the County Employees Retirement Law of 1937, which provides retirement, disability, and death benefits to the employees, retirees, and former employees.

The Agency is allocated a proportionate share of ACERA's overall pension liability. The Agency's proportionate share of the Net Pension Liability (NPL) is reported each year in the Annual Comprehensive Financial Report (ACFR). The Agency is not a separate participating employer under ACERA and therefore, does not have a separate accounting or actuarial valuation analysis.

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. Agency contributions are deposited in an irrevocable trust fund that can only be used to meet future pension obligations.

2.0 PURPOSE

The purpose of this Policy is to establish a funding methodology and a process to establish an IRS Section 115 Trust for funding of pension liabilities and initial funding strategies. The proposed action is in support of Strategic Plan Goal G – Fiscal Responsibility: Operate the Agency in a fiscally responsible manner and Strategic Initiative No. 24 – Continue to Effectively Manage Financial Resources, which includes evaluating the Agency's unfunded pension and other post-employment benefits (OPEB) liabilities.

3.0 ESTABLISHMENT OF THE TRUST AND INITIAL CONTRIBUTION AMOUNT

The Agency shall establish an IRS Code Section 115 approved irrevocable trust (the "Trust") to prefund future pension payments. Once the Agency transfers funds into such a trust, funds can only be utilized for payment of employee pension.

The following criterion shall be met before establishing the initial deposit amount:

Criterion for Initial Contribution	
Criteria 1	All Fund 100 – Water Enterprise Operations Reserve Funds (Emergency, Operating and Reserve for Economic Uncertainties) have reached target reserve levels; and
Criteria 2	The Fund 100 – Water Enterprise Operations has a positive net revenue based on audited actuals at 06/30/2020.

Initial Contribution Amount
The Initial Contribution shall be \$1.5 million

4.0 ANNUAL CONTRIBUTIONS

In order to establish realistic and appropriate thresholds for annual contributions, the Agency adopts the following requirement for contributions to be shared among Agency funds proportionate to the actual cost of employees allocated to the following Agency funds in any given year: Water Enterprise Operations, Water Renewal/Replacement & System-Wide Improvements, Water Enterprise Capital Expansion, Flood Protection Operations, Flood Protection Development Impact Fee Fund and any other funds established by the Agency.

Criteria for Annual Contributions	
Criteria 1	All Fund 100 – Water Enterprise Operations Reserve Funds (Emergency, Operating and Reserve for Economic Uncertainties) have reached target reserve levels; and
Criteria 2	Fund 100 – Water Enterprise Operations has a positive net revenue based on audited actuals at the end of the fiscal year.
Criteria 3	In the event Criteria 2 (as defined above) is not met based on audited actuals, but the Board identifies other available funds during the budget process, the Board may make a finding to override Criteria 2 and contribute to the Trust.
Annual Contribution Amount	
Minimum	The annual contribution amount shall be equal to 1% of the audited fiscal year Net Pension Liability.
Maximum	The annual contribution amount shall not exceed \$0.5 million.

5.0 PLAN ADMINISTRATION

Board of Directors

The Board has the authority to establish the Trust and define policies for the administration of the Trust funds.

Plan Administrator

The Board appoints the General Manager as the Agency's Plan Administrator for the Program. The General Manager shall designate the Assistant General Manager/Treasurer with overall responsibility for the Trust funds and to develop and manage procedures in accordance with this policy.

Trust Administrator

The Agency shall elect Public Agency Retirement Services (PARS) as the Trust Administrator. PARS has established a multiemployer irrevocable trust in compliance with the requirements of Section 115 of the Internal Revenue Code. While it is a multi-employer trust, each employer's contributions benefit only its own employees. There is neither sharing of liability nor investment earnings, and separate employer accounts are maintained.

The Trust Administrator keeps Trust documents current to ensure they reflect the substantive plan and provides ongoing consulting, reporting and plan accounting records.

Trustee

The Agency shall engage a Trustee to hold the contributions. Any contributions made to the program are held and invested by a Trustee. The Trustee duties include:

1. Safeguarding assets for the benefit of retirees;
2. Providing oversight protection of the investments;
3. Custodian of the assets; and
4. Disbursing funds to pay for pension costs and/or retiree healthcare premiums.

Investment Manager

The Agency shall engage an Investment Manager to manage the investment portfolio. The Investment Manager assists the Agency with selecting investment strategy depending on the Agency's expected rate of return and risk tolerance.

The Investment Manager provides annual review of the investment portfolio and asset allocation and takes on the fiduciary responsibility for the Agency's Trust asset management.

6.0 ASSET ALLOCATION INVESTMENT STRATEGY

PARS provides flexibility to the Agency in the selection of the investment strategy for its funds in the Trust, giving the Agency control on return objectives and level of risk on its investments. The Investment Manager will provide an Investment Guideline Document (IGD) to the Agency. The General Manager, in coordination with the Treasurer/ Assistant General Manager – Finance and Investment Manager, will select the most appropriate investment option for the Trust. The IGD recognizes investment marketplace volatility and that actual investment returns may differ from assumed experience. The IGD provides a framework to construct a well-diversified asset mix to meet the Trust’s short- and long-term needs consistent with the Trust’s investment objectives, liquidity considerations, and risk tolerance.

7.0 POLICY REVIEW

This policy shall be subject to review and revision every three (3) years.

8.0 ANNUAL REPORTING

The Treasurer/ Assistant General Manager – Finance shall submit annual reports to the Finance Committee and the Board on the status of the pension trust fund.

9.0 WITHDRAWALS

This trust is being established to offset long-term pension liabilities. However, in the event of economic distress, the amounts on deposit may be used to meet the Agency’s annual employer pension obligation payments, if approved by the Board.

10.0 ACTUARIAL EVALUATION

The agency must rely on Alameda County for the annual evaluation. The Agency is not a separate participating employer under ACERA and therefore, does not have a separate accounting or actuarial valuation analysis.

HISTORY

Date	Action	Resolution
February 3, 2021	Originally adopted	21-05
February 17, 2021	Updated	21-05 (as amended)
March 15, 2023	Amended	23-20