



ZONE 7 WATER AGENCY POLICY AND PROCEDURE

POLICY TITLE: FUNDING OF LONG-TERM PENSION LIABILITY	NUMBER: Z7AF-132-21	PAGE: 1 of 5
APPROVED BY: ZONE 7 BOARD OF DIRECTORS Resolution No, 21-05 (As Amended)	REVISION:	EFFECTIVE DATE: FEBRUARY 17, 2021

1.0 Background

Zone 7 Water 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. 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. 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 would be deposited in an irrevocable trust fund that could 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 Internal Revenue Service (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.



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3.0 Establishment of the Trust and Initial Contribution Amount

The Agency shall establish an Internal Revenue Service Code Section 115 approved irrevocable trust to prefund future pension payments. Once the Agency transfers funds into such a trust, they 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 all Agency funds proportionate with the number of employees allocated to these funds in any given year:

Criterion for Annual Contribution	
Criteria 1	All Fund 100 – Water Enterprise Operations Reserve Funds (Emergency, Operating and Reserve for Economic Uncertainties) have reached target reserve levels; and



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Criteria 2	Fund 100 – Water Enterprise Operations has a positive net revenue based on audited actuals at the end of the fiscal year
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Annual Contribution Amounts	
Minimum	The annual contribution shall be equal to 1% of the audited fiscal year Net Pension Liability
Maximum	The Annual Contribution 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 no sharing of either liability or investment earnings, and separate employer accounts are maintained.



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

Trustee

US Bank will serve as the plan's trustee and/or a similarly qualified bank if the Agency is not able get an agreement with US Bank. 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

HighMark Capital will serve as the Plan's Investment Manager and/or a similarly qualified investment manager if the Agency is not able get an agreement with HighMark Capital. The Investment Manager assists the Agency with selecting investment strategy depending on what rate of return the Agency expects to earn and level of risk tolerance the Agency is willing to take. The Investment Manager provides annual review of the investment portfolio and asset allocation as well as takes on 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. HighMark Capital who serves as the Plan's 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 Plan. The IGD recognizes that there will be investment market place volatility and that actual investment returns may differ from assumed experience. The IGD provides a framework to construct



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a well-diversified asset mix that can potentially be expected to meet the account's short- and long-term needs that is consistent with the account'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 as approved by the Board.

10.0 Actuarial Evaluation

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