



SANTA FE IRRIGATION DISTRICT

PENSION FUNDING POLICY

September 2021

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Definitions

UAL – “unfunded actuarial liability” or the total actuarial determined benefits promised to retirees less the amount of contributions made to the plan;

UAL Contribution - annual contribution to CalPERS to reduce the UAL (does not include “pay-go” or annual required contributions as a percentage of payroll)

ADP - “additional discretionary payment” or an amount greater than the required UAL payment to reduce the level of unfunded liability

CalPERS – “California Public Employees’ Retirement System”

Section 115 Trust- irrevocable trust to allow investment of funds dedicated to pension outside of investment constraints imposed by California Government Code (<https://www.treasurer.ca.gov/cdiac/laig/guideline.pdf>)

1. Policy Statement

Adoption of a Pension Funding Policy (Policy) is a critical component in Santa Fe Irrigation District’s (District) Strategic Business Plan goal of achieving sustainable and effectively managed finances. This Policy is adopted by the Board of Directors (Board) to:

- Create the goal of reaching and maintaining a funded ratio of 100% in a timeline and manner that the Board determines is appropriate and sustainable;
- Provide guidance in making annual budget decisions and in developing long-range projections;
- Demonstrate prudent financial management practices to rate payers, rating agencies, and those who have vested benefits in a retirement plan;
- Aim to create more stability in potable water rates.

The District will continually monitor changes to pension funding best practices, as well as any additional guidance provided by subject matter experts, such as the Government Finance Officers Association. Additionally, funding defined benefit plans require a long-term horizon. In light of these factors, the Board will review this policy at least every two years to determine if changes are needed to be made to achieve the stated goal of achieving a 100% funded level.

2. **Background**

The District provides an ongoing pension plan through a defined benefit system administered by CalPERS. The District has three different pension plans that employees currently have vested pension benefits in:

1. Classic Plan – accounts for over 95% of District pension liability, closed to new or reciprocal employees after December 2012;
2. Second Tier – created for all CalPERS reciprocal members effective January 2013;
3. Public Employee Pension Reform Act (PEPRA) – enacted by California legislation for new CalPERS entrants beginning in January 2013.

The District has taken steps to mitigate the level of unfunded liability growth including the elimination of the Classic Plan for new employees, implementation of PEPRA, and reducing the unfunded liability through one-time payments. The adoption of this Policy continues these positive steps taken by the District to address the unfunded pension liability.

3. **Pension Funding Objectives**

At minimum, the District has committed to ensuring that the full required annual UAL Contribution is pre-paid to CalPERS each July to receive a 3.5% discount each year from CalPERS. Additionally, the District has established the goal to reach 100% funded status in a manner consistent with the Policy Statement; which will be accomplished through these regular full payment of the ADC (generated through water rates and budgeted) in addition to the potential utilization of District fund balance. The timeline to reach 100% funded status is dependent on available resources and how they are applied.

District fund balance amounts are generated through revenue requirements included in the rate setting process or through positive operating performance above levels anticipated in the rate setting process (increased revenues and / or decreased expenditures). Fund balance available for potential utilization to address the UAL are the amounts above Board appropriated reserve levels in accordance with the District's Reserve Policy (<https://www.sfidwater.org/DocumentCenter/View/883/Reserve-Funds-Policy-PDF>).

Per the Reserve Policy, the total fund balance and amounts appropriated in each reserve are reconciled on an annual basis in conjunction with the review and acceptance of the annual audit. At that time (or any other as determined appropriate by the Board), the Board will also decide what, if any, fund balance amounts are available above the appropriated reserve levels and if they should be utilized for the benefit of reducing the UAL. Amounts determined by the Board to be available and to utilize to reduce the UAL should be utilized in the following manner:

Objective 1: Level annual UAL Contribution through Additional Discretionary Payment

The District will create a consistent annual UAL Contribution from year-to-year without extending the District's anticipated payoff time period for the UAL. This consistency will aid in a more predictable financial outlook in addition to not placing an undue burden on water rates to continually generate more revenue to pay a higher UAL Contribution. This will be accomplished through the contribution of ADP to CalPERS to reduce the District's various amortization bases in a manner consistent with the Board's direction.

The timeline to achieving the stated goal of 100% funded status is dependent upon the level of ADP determined appropriate and what amortization base(s) it is applied to. An ADP may be made to reduce the consistent year-to-year UAL Contribution, but not decrease the time to being 100% funded; or, conversely, made to reduce the time to being 100% funded without reducing the UAL Contribution. The Board will determine any available ADP and how it is to be applied during the annual reconciliation of District reserves.

Objective 2: Section 115 Trust / Pension Stabilization Fund

The District will also establish a Section 115 pension trust, which:

- a. Will be established as a Pension Stabilization Fund, which will be a mechanism to offset any increase in the District's UAL due to CalPERS negative variance from their projected rate-of-return and / or change in demographics.

Any negative variance or change in demographics may increase the UAL Contribution through the addition of a new amortization base when CalPERS publishes the District's updated annual valuation report. The General Manager will offset this new amortization base with any available contribution(s) from the Pension Stabilization Fund to maintain the level UAL Contribution. This Pension Stabilization Fund will be reconciled annually in conjunction with the completion of the annual audit and Reserve Fund Policy reconciliation.

Based on any negative variance that cannot be accommodated by the Pension Stabilization Fund due to insufficient balance, Staff will bring forward a proposal to the Board on option(s) to replenish this fund or to make an additional ADP to CalPERS to maintain the consistent UAL Contribution, including the timeframe to do so;

- b. Whose funds will be deposited with a qualified administrator in fund(s) that have the appropriate investment objective(s) as determined by the Board.

Objective 3: Leveraged Funding and Other Options

Staff will continue to review the benefits of utilizing debt to achieve the stated goals of this Policy. This includes the analysis of a tax-exempt exchange for the District, utilizing debt proceeds from typical pay-go capital improvement projects to apply to the UAL. Any tax-

exempt exchange should be reviewed holistically with the District's 10-year capital improvement program, debt capacity, covenants, cost-of-service, and other relevant information.

This Policy does not allow for the issuance of pension obligation bonds due to potential negative arbitrage and other potential negative impacts.

4. **Authority**

The Board of the Santa Fe Irrigation District has sole authority to amend or revise the District's Reserve Funds Policy. Management responsibility for the Pension Funding Policy is hereby delegated to the General Manager, who through approval of this Policy has established written procedures for the management of the District's Funds.