

San Geronio Pass Water Agency

DATE: September 5, 2024

TO: Finance & Budget Committee

FROM: Lance Eckhart, General Manager

BY: Tom Todd, Jr., Chief Financial Officer

**SUBJECT: APPROVING AN AGREEMENT WITH THE PUBLIC AGENCY
RETIREMENT SERVICES TRUST FOR A 401(a) RETIREMENT PLAN**

RECOMMENDATION

The Committee recommends that the Board of Directors adopt a resolution authorizing execution of an agreement with the Public Agency Retirement Services (PARS) Trust to provide a Defined Contribution Retirement Plan for Agency employees.

PREVIOUS CONSIDERATION

- Board of Directors – November 6, 2023: The Board approved the updated Employee Guide, which included provision of “an additional deferred compensation plan of Agency choice” (top of page 36, Section 3.12 Retirement).

BACKGROUND

PARS is the third largest multiple employer public retirement system in California with over 600 member agencies representing over 500,000 public employees. Several nearby agencies including the Palm Springs Aerial Tramway, Desert Recreation District, City of Calimesa, and City of Canyon Lake utilize this program to provide a source of retirement benefits to its employees with a Defined Contribution Retirement Plan.

ANALYSIS

Staff selected PARS because of their responsiveness to the Agency’s need for a 401(a) retirement plan. Thorough investigation showed that no other providers were interested in setting up and administering a plan for an entity as small as the Agency.

Effective July 1, 2024, the Agency will contribute the following amounts based on the employee’s classification under CalPERS:

- Employees who meet the “New Member” definition under CalPERS as defined by PEPR: 10% of compensation. This represents a 5% baseline with the addition to a 5% option exercised by the employee.
- Employees who meet the “Classic Member” definition under CalPERS as defined by PEPR: 0% of Compensation

Employees will contribute a fixed percentage of their compensation to the plan based on their placement in a specific employment tier and such contribution amounts are not subject to change by the Employee.

There are several benefits of a Defined Contribution Plan including:

1. All contribution rates are set by the Agency.
2. The Agency can increase or decrease employer contributions at its discretion.
3. External factors (e.g., volatility in the financial markets or mortality rates) do not impact the Agency's ultimate cost of the program.
4. The employee benefits through participation in a tax-qualified retirement program that provides advantages during employment (e.g., no immediate taxation on any contributions received and tax-deferred accumulation).
5. At termination of employment, the employee's vested account balance may be rolled over into an Individual Retirement Account (IRA) or other qualified retirement plans that accept rollovers.

As the trust administrator, PARS will ensure that San Geronio Water Pass Agency eligible employees are educated in the program and will be provided information regarding plan investments. PARS also provides training to payroll staff to ensure that the program is properly implemented and will also monitor the program and generate and submit all required reports. US Bank serves as the Trustee of the program. The assets are held separately from the assets of US Bank and cannot be accessed by creditors of either the Trustee or the District. Investments through a variety of mutual funds for selection by the employees are provided through John Hancock Retirement Services.

FISCAL IMPACT

Costs for setting up and maintaining the plan will be allocated to the Retirement line item in the General Fund and the Debt Service Fund. The allocation will be based on the actual percentages of expenditures of the Retirement line item for each fund.

The plan set-up fee will be \$1,500. Ongoing fees will be 0.50% for assets between \$0 and \$2.5 million and 0.35% for assets over \$2.5 million, subject to a \$400 monthly minimum. Filing fees charged by the IRS, if any, will be paid by the Agency separately.

ACTION

The Committee recommends that the Board of Directors adopt a resolution authorizing execution of an agreement with the Public Agency Retirement Services (PARS) Trust to provide a Defined Contribution Retirement Plan for Agency employees at its next regular meeting.

ATTACHMENTS

Resolution 2024-10
San Geronio Pass Water Agency Plan Provisions

RESOLUTION NO. 2024-10

A RESOLUTION OF THE BOARD OF DIRECTORS OF THE SAN GORGONIO PASS WATER AGENCY ESTABLISHING A DEFINED CONTRIBUTION RETIREMENT PLAN WITH THE PUBLIC AGENCY RETIREMENT SYSTEM TRUST.

WHEREAS it is determined to be in the best interest of the San Gorgonio Pass Water Agency (“Agency”) and its employees to provide a defined contribution program to eligible employees;

WHEREAS the Agency is eligible to be a member of the Public Agency Retirement System (PARS) Trust, which has made available a defined contribution plan qualifying under the relevant sections of the Internal Revenue Code and the California Government Code.

NOW THEREFORE, BE IT RESOLVED THAT:

1. The Board of Directors hereby adopts the PARS Trust for Participant Directed Investment Program, including the PARS Supplemental Defined Contribution Plan, as part of the Agency’s Retirement Program, effective September 9, 2024;
2. The Board of Directors, pursuant to IRC Section 414(h) authorizes the Agency to “pick up” mandatory employee contributions to the Plan on behalf of Plan participants;
3. The Board of Directors hereby appoints PARS as Trust Administrator, U.S. Bank National Association, as Trustee, and John Hancock Life Insurance Company as Custodian/Recordkeeper for the PARS Supplemental Defined Contribution Plan effective September 9, 2024;
4. The Board of Directors hereby appoints the General Manager or their successor or their designee as the Agency’s Plan Administrator for the Public Agency Retirement System; and
5. The Agency's Plan Administrator is hereby authorized to execute the PARS legal and administrative documents on behalf of the Agency and to take whatever additional actions are necessary to maintain the Agency’s participation in PARS and to maintain PARS compliance of any relevant regulation issued or as may be issued; therefore, authorizing him/her to take whatever additional actions are required to administer the Agency’s PARS plan(s).

AYES:

NOES:

ABSENT:

ABSTAIN:

STATE OF CALIFORNIA
COUNTY OF RIVERSIDE

Kevin Walton, the Secretary of the Board of Directors of the San Gorgonio Pass Water Agency of Riverside County, California, hereby certifies that the above foregoing resolution was duly and regularly adopted by said Board at a regular meeting thereof held on the ninth day of September, 2024, and passed by a roll call vote of said Board.

IN WITNESS WHEREOF I have hereunto set my hand and seal this day, September 9, 2024.

Secretary of the Board

San Gorgonio Pass Water Agency – Supplemental Defined Contribution Plan Proposal- FINAL 08/20/24

a. Plan Vehicle

401(a) Tax-Qualified Governmental Profit-Sharing Plan

b. Eligible Employees

Eligible Employees shall include all employees of the Agency employed on or after July 1, 2024.

Tier I

Employees who meet the New Member definition under CalPERS as defined by PEPRRA.

Tier II

Executive Employees who meet the Classic Member definition under CalPERS as defined by PEPRRA.

Tier III

Senior Management Employees who meet the Classic Member definition under CalPERS as defined by PEPRRA.

Tier IV

Mid-Management Employees who meet the Classic Member definition under CalPERS as defined by PEPRRA.

Tier V

Non-Management Employees who meet the Classic Member definition under CalPERS as defined by PEPRRA.

c. Vesting

Participants shall be 100% vested in their Employer contributions if they have attained five (5) years of Agency service or Normal Retirement Age at the time of termination/retirement from the Agency.

If neither of the age or service requirements have been met at termination/retirement, plan vesting for Employer contributions shall be based on the following schedule:

| Years of Service Credit completed | Vesting Percentage for Employer Contributions |
|--|--|
| Less than 1 year | 0% |
| 1 | 20% |
| 2 | 40% |
| 3 | 60% |
| 4 | 80% |
| 5 | 100% |

Employees are always 100% vested in their employee contributions.

d. Employer Contributions

Employer contributions shall be based on the Employee's Tier of eligibility as follows:

Tier I: 10%

Tiers II-V: 0%

Compensation shall be defined as "CalPERS reportable compensation." For Classic Employees. It shall be defined as "Regular Base Pay" for PEPRAs employees.

e. Pre-Tax Employee Contributions

Employee contributions shall be based on the Employee's Tier of eligibility as follows:

Tier I: 5%

Tier II: 0%

Tier III 7%

Tier IV: 0%

Tier V: 0%

f. Distribution Options

Eligible participants shall have the option of selecting a lump sum distribution, IRA rollover, or to purchase an annuity with account balance proceeds following termination of employment.

g. Hardship Withdrawals and Loans

None permitted.

h. Investment Platform

PARS utilizes a pre-selected lineup of mutual funds available from John Hancock. All proceeds from the transfer and subsequent contributions will be automatically invested in the appropriate John Hancock LifeCycle portfolio based on the projected retirement date of the employee. For example, if an employee is 43 years of age, the entire account balance and all new contributions are automatically defaulted into the John Hancock LifeCycle Fund – 2045.

These LifeCycle funds utilize a diversified array of investments that are professionally managed by John Hancock. As an employee approaches retirement age, these LifeCycle funds generally become more conservative in their investments.

If the Agency's employees prefer to utilize investments other than LifeCycle funds, they will have the ability to rebalance their investments and future contributions among an array of twenty (20) different mutual funds that have been selected by an independent registered investment advisor. The following represents a sampling of funds that have been made available through the PARS program.

JOHN HANCOCK: SELF DIRECTED INVESTMENTS

Fixed Income Funds

Fidelity Advisor Total Bond Fund
PIMCO Real Return Fund
Vanguard Short-Term Federal Fund
Money Market Fund

Growth

J.H. Disciplined Value Fund
500 Index Fund
Franklin Mutual Global Discovery Fund

Lifecycle Portfolios*

J.H. Lifecycle 2065 Portfolio
J.H. Lifecycle 2060 Portfolio
J.H. Lifecycle 2055 Portfolio
J.H. Lifecycle 2050 Portfolio
J.H. Lifecycle 2045 Portfolio
J.H. Lifecycle 2040 Portfolio
J.H. Lifecycle 2035 Portfolio
J.H. Lifecycle 2030 Portfolio
J.H. Lifecycle 2025 Portfolio

Aggressive Growth

The Growth Fund of America
Mid Cap Index Fund
American Century Heritage Fund
Royce Opportunity Fund
DFA US Small Cap Fund
Vanguard Small Cap Fund
Vanguard Small Cap Growth Index Fund
DFA International Value Fund
Invesco International Growth Fund

Growth and Income

PIMCO Global Bond Opportunities Fund

Summary of Services

1. Plan Installation Services:

- Assisting appropriate Agency personnel to finalize Plan provisions, implementation timelines, benefit communication strategies, data reporting and contribution submission requirements;
- Providing the necessary analysis and advisory services to finalize these elements of the Plan;
- Providing documentation needed to establish the Plan for review by Agency legal counsel;
- Upon Agency authorization, preparing and submitting application to the Internal Revenue Service for a determination that the Plan is qualified (the application fee for which shall be paid by the Agency).

2. Plan Administration Services:

- Monitoring the receipt of Plan contributions made by the Agency to the trustee and/or custodian/recordkeeper of the PARS Trust Program

("Trustee and/or Custodian/Recordkeeper"), based upon information received from the Agency and the Trustee;

- Performing periodic accounting of Plan assets, including the allocation of employer and employee contributions, distributions, investment activity and expenses (if applicable) to individual Plan participant ("Participant") accounts, based upon information received from the Agency and/or Trustee and/or Custodian/Recordkeeper;
- Acting as ongoing liaison between the Participant and the Agency in regard to distribution payments, which shall include use by the Participants of toll-free telephone communication to PARS;
- Providing Participant onboarding materials and information;
- Conducting group Participant orientation meeting(s) at a select Agency site or via an online meeting platform;
- Coordinating the processing of Participant distribution payments pursuant to authorized written Agency certification of distribution eligibility, authorized direction by the Agency, and the provisions of the Plan, and the agreement for administrative services ("Agreement"), and, to the extent possible, based upon Agency-provided data;
- Directing Trustee and/or Custodian/Recordkeeper to liquidate Plan assets (if necessary) and make Participant distribution payments, and providing required tax filings in regarding said distribution payments;
- Notifying the Trustee and/or Custodian/Recordkeeper of the amount of Plan assets available for further investment and management, or, the amount of Plan assets necessary to be liquidated in order to fund Participant distribution payments;
- Coordinating actions with the Trustee and/or Custodian/Recordkeeper as directed by the Plan Administrator within the scope of the Agreement;
- Preparing and submitting a quarterly report of Plan activity to the Agency, unless directed by the Agency otherwise;
- Providing quarterly statements to plan Participants and to the Agency;
- Preparing and submitting the Annual Report of Financial Transactions to the California State Controller, as required by law, for the PARS Trust Program, including the required certified audit of the PARS Trust.
- Plan Compliance Services: Preparing draft amendments and other associated documents to the Plan or Trust, as required by federal and state regulatory agencies, to be reviewed and approved by Agency's legal counsel.

PARS is not licensed to provide and does not offer tax, accounting, legal, investment or actuarial advice.

| Implementation Steps | Suggested Time Frame for completion |
|---|--|
| Finalize PARS plan provisions, establish contribution percentages, plan eligibility, etc. | Mid- August 2024 |
| Agency's Board passes resolution to; adopt PARS plan & trust and appoint a position of employment to act as plan administrator (sign documents, etc.) on behalf of the Agency | September 9, 2024 |
| Agency provides PARS with a copy of signed resolution | Week of September 16 th |
| PARS provides "signature ready" legal documents including the services agreement, finalized plan document, trust document, and trustee forms for review and execution by the Board-appointed Plan Administrator | Early October 2024 |
| Agency returns executed documents to PARS for countersignatures and account set up | Mid-October 2024 |
| PARS meets with Agency Staff to review administrative procedures, contribution submission instructions, etc. | |
| Once the Agency's account is set up, Plan contributions can be submitted to John Hancock. | December 1, 2024 |

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|--|-------------------------|
| (Agency should submit the contribution report directly to PARS in conjunction with the contribution) | |
| PARS conducts a Participant investment education meeting. Participants can access account balances online through John Hancock's website | Early-Mid December 2024 |