

San Geronio Pass Water Agency

DATE: October 21, 2024

TO: Finance & Budget Committee

FROM: Lance Eckhart, General Manager

BY: Tom Todd, Jr., Chief Financial Officer

SUBJECT: APPROVING RESOLUTION 2024-14 TO CONFIRM AND IMPLEMENT THE ESTABLISHMENT OF A DEFINED CONTRIBUTION RETIREMENT PLAN WITH THE PUBLIC AGENCY RETIREMENT SERVICES TRUST SYSTEM

RECOMMENDATION

Staff recommends that the Board of Directors adopt Resolution 2024-14, a resolution that confirms and implements the establishment of a defined contribution plan with the Public Agency Retirement System Trust.

PREVIOUS CONSIDERATION

- Board of Directors – November 6, 2023: The Board approved the updated Employee Guide, which included reviewed and discussed the proposed budget. After Board input, some changes were made, reflected in the latest version of the proposed budget.
- Finance & Budget Committee Meeting – September 5, 2024: The Committee reviewed and recommended Board approval of Resolution 2024-10, authorizing the execution of an agreement with the Public Agency Retirement Service Trust to provide a defined contribution retirement plan for the Agency
- Board of Directors – September 9, 2024: The Board approved Resolution 2024-10.

BACKGROUND

When the Board approved the Employee Guide in November of 2023, the Board approved an additional retirement vehicle for Agency employees. The primary purpose of this additional retirement plan was to try to provide equity to employees in relation to retirement provisions.

This resolution is the next step in the process of establishing the necessary documents to enact a defined contribution retirement plan.

ANALYSIS

By passing Resolution 2024-10, the Board established a defined contribution plan with the Public Agency Retirement Services Trust and authorized the General Manager to administrate the plan. Resolution 2024-14 is the next step in setting up the defined contribution plan, and clarifies and implements the necessary details to continue the process.

Specifically, Resolution 2024-14 clarifies and recites requirements according to IRS Revenue Ruling 2006-43:

- requires employee contributions to be deducted from employees' compensation;
- declares that contributions will be 'picked up' by the Agency;
- declares that the contributions will be treated as tax deferred;
- declares that contributions will be treated as Employer contributions for tax purposes
- acknowledges that employees do not have the right to 'opt out' of the plan

The language used in the resolution conforms to language required by the IRS and will hopefully make it easier to receive a letter of determination in favor of the Agency. PARS will file the necessary paperwork on behalf of the Agency to start a process that may take months to complete.

STRATEGIC PLAN NEXUS

The establishment of a defined contribution plan with the Public Agency Retirement System Trust is consistent with the Agency's Strategic Plan and has a nexus with the following Strategic Goals:

STRATEGIC GOAL 5: Position the agency for long-term success by continuing to grow a welcoming and collaborative environment that attracts and retains devoted employees.

Objective #2: Annually review and update (as needed) job descriptions, classifications, compensation and benefits to competitively attract and retain top talent.

FISCAL IMPACT

The costs associated with setting up and maintaining the plan are the same as described in the Staff Report dated September 5, 2024: costs 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

Staff recommends that the Board of Directors adopt Resolution 2024-14.

ATTACHMENTS

Resolution 2024-14

RESOLUTION NO. 2024-14

A RESOLUTION OF THE SAN GORGONIO PASS WATER AGENCY TAKING CERTAIN ACTIONS TO CONFIRM AND IMPLEMENT THE ESTABLISHMENT OF A DEFINED CONTRIBUTION RETIREMENT PLAN WITH THE PUBLIC AGENCY RETIREMENT SYSTEM TRUST

WHEREAS, the San Gorgonio Pass Water Agency (“Agency”) is a wholesale water agency formed under the San Gorgonio Pass Water Agency Law set forth in Water Code Appendix 101; and

WHEREAS, the Agency Board of Directors (“Board”) adopted Resolution 2024-10 on September 9, 2024 which established a defined contribution retirement plan (“Plan”) with the Public Agency Retirement System Trust (“PARS”) in order to provide a defined contribution program to eligible employees. PARS provides a Plan which is in compliance with relevant sections of the Internal Revenue Code (“IRC”); and

WHEREAS, Resolution 2024-10 provides that the Agency’s Plan Administrator is authorized to: (a) execute the PARS legal and administrative documents on behalf of the Agency; (b) take whatever actions are necessary to maintain the Agency’s participation in PARS; (c) to maintain the Agency’s compliance with relevant regulations; and (d) to take whatever additional actions are required to administer the Plan in accordance with the administrative services agreement the Agency entered into with PARS; and

WHEREAS, the implementation steps required to be performed by the Agency’s Plan Administrator include finalizing the terms of a services agreement and accompanying documents and communicating with PARS staff to complete any remaining steps and procedures; and

WHEREAS, in completing these implementation steps, and to meet the requirements of IRS Revenue Ruling 2006-43, it has been determined that the best practice is to adopt this Resolution 2024-14 in order to take the following actions to confirm and implement the Plan:

(a) Declare that the Plan requires mandatory employee contributions (“Mandatory Contributions”) to be deducted from each eligible employees’ compensation and contributed to the Plan’s trust as Mandatory Contributions;

(b) Declare that the Mandatory Contributions shall be picked up by the Agency and treated as tax deferred in accordance with IRC Section 414(h)(2);

(c) Declare that the Mandatory Contributions shall be treated as Employer Contributions to the Plan for income tax purposes under IRC section 414(h)(2); and

(d) Acknowledge that the Plan does not give employees the right to decline to make the Mandatory Contributions directly and instead receive the amount that would have been deducted as additional compensation.

NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF DIRECTORS OF THE SAN GORGONIO PASS WATER AGENCY AS FOLLOWS:

1. Mandatory Contributions The Agency shall treat the Mandatory Contributions as Employer contributions for income tax purposes in accordance with IRC Section 414(h)(2).

2. Tax Deferral The Agency shall treat the Mandatory Contributions as tax deferred as provided under IRC Section 414(h)(2), federal Treasury Regulations issued thereunder and other official guidance.

3. Employer Paid Contributions The Agency shall pick up the Mandatory Contributions as provided in section 414(h)(2) of the Code.

4. Requirement To Make Mandatory Contributions Employees shall not have the right to decline to make the Mandatory Contributions to the Plan and, thereby, receive such amount as additional compensation .

5. Incorporation Of Recitals The Recitals set forth above are incorporated herein and made an operative part of this Resolution.

6. Effective Date The President of the Board shall sign this Resolution and the Secretary of the Board shall attest thereto, and this Resolution shall be in full force and effect immediately upon adoption. Notwithstanding the foregoing, the effective date of the Plan established under Resolution No. 2024-10 is, and shall remain, September 9, 2024.

ADOPTED AND APPROVED this 21st day of October, 2024.

Michael R. Valdivia
President, Board of Directors
San Gorgonio Pass Water Agency

ATTEST:

Kevin D. Walton
Secretary, Board of Directors
San Gorgonio Pass Water Agency