

1. CALL TO ORDER

Vice Chair Peifer called the meeting of the Executive Committee to order at 8:30 a.m. Individuals in attendance are listed below:

Executive Committee Members

Audie Foster, California American Water
Marcus Yasutake, City of Folsom
Spencer Short, City of Lincoln
Jim Peifer, City of Sacramento
Debra Sedwick, Del Paso Manor Water District
Robert Dugan, Placer County Water Agency
Kerry Schmitz, Sacramento County Water Agency
Rob Roscoe, Sacramento Suburban Water District

Staff Members

John Woodling, Rob Swartz, Nancy Marrier, Cecilia Partridge, Monica Garcia and Katrina Gonzalez, legal counsel.

Others in Attendance

Mike O'Hagan and Kelye McKinney. Nicole Krotoski and Catherine McLeod participated via conference phone.

2. PUBLIC COMMENT

None

3. CONSENT CALENDAR

The minutes from the Executive Committee meeting held April 27, 2016.

Motion/Second/Carried (M/S/C) Mr. Roscoe moved, with a second by Ms. Schmitz, to approve the minutes from the April 27, 2016 Executive Committee meeting. The motion carried by the unanimous voice vote of all directors present.

4. RWA ASSOCIATE APPLICATION

RWA Policies and Procedures 100.3, RWA Associate Members, was amended May 12, 2016. Entities eligible to become Regional Water Authority (RWA)

Associate Members include public or private entities with water management responsibilities and authorities who are not municipal water suppliers in this region. Agencies or water utilities that deliver potable retail or wholesale water in this region are not eligible to become RWA Associates, as these agencies are eligible to become RWA Members or Contracting Entities. Associate members may include, but are not limited to agricultural water providers, wastewater agencies, flood control agencies, and water planning organizations.

Each entity that applies to become an RWA Associate must be approved by a two-thirds majority vote of the RWA Board of Directors. RWA Associates do not hold a seat on the RWA Board, and therefore are not eligible to vote on RWA Board business or policy matters, including legislative/policy issues under Section 7(a) of the RWA joint powers agreement. RWA Associates pay an annual fee equal to 0.1% of the entity's annual operating budget, rounded up to the next even thousand dollars, subject to a cap set by the RWA Board of Directors. The annual fee for RWA Associates is subject to adjustment by the RWA Board in the development and approval of the annual budget, and has been increased in recent years by a percentage equivalent to the increase of member fees. RWA Associates are eligible to participate in RWA subscription programs, and will not be subject to non-member surcharge fees for such programs. A letter that RWA received from Placer County requesting RWA Associate Membership was included in the packet.

Placer County will be a partner relative to water infrastructure in unincorporated areas of the county and they are active with the SGMA compliance piece. With the Placer County Groundwater Management Group, the formation of GSA and SGMA and recognizing that Placer County is wide and varied insures that all partners are involved. Mr. Dugan will be prepared to present this item to the full board at the July 14, 2016 before the action item is made.

M/S/C Mr. Roscoe moved, with a second by Mr. Dugan, to recommend RWA Board approval of RWA Associate application from Placer County. The motion carried by the unanimous voice vote of all directors.

5. Vice Chair Peifer appointed a 2016 Executive Director Evaluation Committee including Kerry Schmitz, Audie Foster, Robert Dugan, Jim Peifer, Kelye McKinney. Ms. Schmitz was appointed committee chair. John Woodling, Executive Director, will send his self-evaluation to the committee members by July 1, 2016. In an effort to obtain as much input from the members as possible, Ms. Schmitz suggested that Executive Director Evaluation Forms be distributed to the RWA members at the July 14, 2016 board meeting.

Chair Short entered the meeting and took over chairing the meeting from Vice Chair Peifer.

6. **RWA DRAFT JULY 2015 OTHER POST EMPLOYMENT BENEFITS (OPEB) AND ACTUARIAL REPORT ON RETIREE BENEFITS**

Bickmore recently conducted an updated biennial actuarial valuation of the Regional Water Authority's Other Post Employment Benefit (OPEB) obligation in compliance with Governmental Accounting Standards Board Statement No. 45 (GASB 45), Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions. This draft report calculated the annual required contribution for the fiscal years ending June 30, 2017 and 2018.

Catherine McLeod, Bickmore, explained the background for reporting the OPEB Liability and the annual OPEB Expense. The valuation cycle for RWA is every two years. In the process the future value of expected benefit payments for the current retirees until their death and for current active employees is determined.

Mr. Woodling provided an overview of the draft valuation report changes. This valuation assumed no changes to the discount rate of 7.25% using California Employers' Retiree Benefit Trust (CERBT) Asset Allocation Strategy One as confirmed at the January 14, 2016 Board meeting.

NEW VALUATION CONCEPT:

Since the most recent prior valuation report, a new concept is introduced into the draft valuation. RWA is now required to calculate an additional implicit subsidy in determining its total OPEB liability. Previously, RWA was exempt from this calculation.

Mr. Woodling explained explicit subsidy and implicit subsidy. Explicit subsidy¹ is what RWA pays or expects to pay for health care expense for current retirees and current staff. Implicit subsidy relates to the way CalPERS health plans work. The health benefit pool that RWA is in combines active and retired employees into one health plan. If retirees who are older were in a separate pool by themselves, their health care premiums would be higher. As a result, there is an implicit subsidy to the retiree health benefits by current employees paying for health benefits.

While the implicit subsidy must be valued and disclosed in the financial statements, it may not impact the net benefit cash flows and RWA may or may not choose to fund this liability differently than the explicit subsidy liability. If RWA chooses not to fund the implicit liability, the discount rate for the implicit subsidy would need to be adjusted to 4.0%, which would result in an even larger OPEB liability for this portion and consequently total liability. Not funding the implicit portion of the OPEB would generate a larger accounting liability.

¹ This subsidy represents the healthcare premiums that are expected to be paid either in the future for actives or currently for retirees based upon actual and/or expected future premium costs. This subsidy is similar to the prior valuation reports.

If the CalPERS medical program continues in its current form (i.e. blended premium rates for active employees and pre-Medicare retirees) and RWA continues to participate in this program, RWA could expect that the implicit liability will result in zero cash outlay since the additional costs for retirees each year is covered by an equal and offsetting amount of higher total premium cost for active employees than would have incurred if the actives were insured separately.

The EC discussed the risks of not funding the implicit liability including the fact that RWA is made up of a voluntary membership. EC members expressed the desire to fund this implicit liability to hedge against any future changes to the CalPERS medical program that could result in increased costs, thereby requiring the additional payment from former members of RWA. Catherine MacLeod of Bickmore advised that RWA should monitor the funding status of the total OPEB in the future to avoid any significant overfunding of projected benefits that may result by funding the implicit subsidy. This analysis can be done as part of the bi-annual valuation.

Alternative discount rates

A draft report included in the EC packet assumed no changes to the discount rate of 7.25%. Bickmore also provided additional information to evaluate whether the Board wishes to continue using a discount rate lower than required by the CERBT to provide cushion for choosing Strategy 1 and potential adverse market conditions². The following summarized comparative information for FYE 2017 was provided in the staff report and is derived from information provided by Bickmore.

FYE 2017	7.00% Explicit	7.00% Implicit	Total	Increase % from 7.25%
UAAL Total	(\$109,238)	\$184,827	\$75,579	47%
ARC	\$33,261	\$39,484	\$72,745	9%

Using a lower discount rate of 7.0% does increase the actuarially calculated liability and consequently, the required annual payments to fund the OPEB trust. The FY17 budget had planned for an increase in annual OPEB costs and could pay for this increase if the Board chooses this lower discount rate.

² Recall that the CERBT lowered its expected discount rate for Strategy 1 from 7.61% to 7.28% in September 2014. Since RWA had chosen a lower discount rate, the effect technically did not impact RWA.

Recommendation

M/S/C Ms. Sedwick moved, with a second by Mr. Roscoe, to recommend the RWA Board adopt the 7% discount rate and approve the draft RWA July 2015 OPEB and Actuarial Report on GASB 45 retiree benefit evaluation with discount rate modifications and to recommend continued funding of explicit OPEB subsidy and funding of the implicit OPEB subsidy with available OPEB budgeted funds. The motion carried by the unanimous voice vote of all directors present.

Nicole Krotoski and Catherine McLeod exited the conference phone line.

7. REGIONAL RELIABILITY PLAN UPDATE

Rob Swartz, Manager of Technical Services, gave an informational update reporting that staff is continuing to develop a project agreement to commence the Reliability Water Reliability Plan project as a subscription-based program at RWA. On June 8, 2016, staff held a meeting of potential project participants to provide an overview of the main components of the project agreement. On June 16, 2016, staff released a draft project agreement to the potential participating agencies for their review. Comments are due by the next meeting on July 13, 2016.

Staff provided a brief overview of the draft project agreement to the Executive Committee. After agencies have had a chance to comment on the draft agreement, by July 13, 2016, staff will bring a final version of the project agreement for approval on July 27, 2016. The agreement integrates two projects, a Regional Drought Contingency Plan and a Regional Water Reliability Plan. The packet included a financing plan for project agreement participants.

8. LEGISLATION UPDATE

John Woodling, Executive Director, gave an update on legislation referring to the Legislative Hot Bill List. Since the last Executive Committee Meeting in April, the State Senate and Assembly have gone through the process of committee hearings, amendments, and votes to move bills out of their respective houses and onto the second house for further consideration. That process wrapped up around the first week of June with many of the bills RWA is tracking failing to be passed out of the house of origin. Those bills are now inactive or dead.

As of June 16, the RWA Hot List of bills consists of 21 active bills including the addition of SB 552 by Senator Wolk. SB 552 is a 2-year bill from 2015 that was amended in May and is now being considered in the Assembly.

As amended, SB 552 would allow the State Water Resources Control Board to step into the role of administrator and manager of water agencies that fail to meet water quality standards and could require those same agencies to be consolidated with

well run, compliant water agencies. There are a couple of major concerns with this bill. One is the lack of specificity in the bill relating to funding of the required administrative services and whether the state appointed administrator would be subject to Proposition 218. Further, this bill would specify that if the State ordered a consolidation, customers of the subsumed water system may not be charged an additional fee beyond the costs of the consolidation itself. As written, the subsuming agency would have to take on additional costs and financial risk in the consolidation of the troubled agency. RWA and other water organizations such as the Association of California Water Agencies (ACWA) agree that safe drinking water is a right of every Californian, but it is a cost that should not be paid by public water agencies and their ratepayers as proposed in SB 552.

The Executive Director sent a letter opposing SB 552 on June 9th to the members of the Assembly Environmental Safety and Toxic Materials Committee. However, the Committee passed SB 552 on June 14th and referred it to the Assembly Water, Parks, and Wildlife (WPW) Committee for further consideration. We intend to send a letter of opposition to the WPW Committee and direct Fernandez Government Solutions (RWA's contract lobbyist) to actively try to stop the bill from passage.

In addition to the SB 552 letter, RWA sent letters supporting AB 1716 (McCarty) and SB 1340 (Wolk) and letters opposing SB 814 (Hill) and SB 1317 (Wolk). These letters are available on the RWA website or upon request.

On May 18th, our local state representatives signed onto a letter addressed to the legislative leadership advocating for \$100 million from the Greenhouse Gas Reduction Fund (GGRF) to be provided to local water agencies for supplementing the popular turf replacement programs. The timing of the letter coincided with the State budget process and it was hoped that the budget would include appropriations from the GGRF. At this time, it appears that the State budget will be passed without a commitment on GGRF appropriations but there may be further consideration later in the summer. RWA's lobbyist and staff will continue to work with our local delegation and the legislative leadership over the next couple of months to secure these funds.

Staff recommended the Executive Committee adopt the recommended changes to the Hot List bills and the positions as put forth by the LSPC. The entire list of bills will be tracked continuously, vetted through the LSPC Committee, and brought forward to the Executive Committee to assure appropriate actions are taken as the 2016 Legislative Session continues.

There was Executive Committee consensus in support of the amended Hot List.

9. RWA JULY 14, 2016 BOARD MEETING

The draft agenda was included in the packet for the July 14, 2016 full Board meeting.

After discussion it was decided to add a closed session as agenda item 7 to the July 14, 2016 full Board meeting agenda moving Directors' Comments to agenda item 8.

M/S/C Mr. Roscoe moved, with a second by Mr. Dugan, to approve the July 14, 2016 proposed RWA Board meeting agenda as amended. The motion carried by the unanimous voice vote of all directors present.

10. EXECUTIVE DIRECTOR REPORT

Mr. Woodling said that we are on track with CalPERS for SGA to have a contract on July 1, 2016 with the current funds on account to be split between RWA and SGA according to the analysis. The issue going forward is that the SGA contract needs to include employees' paid Social Security identical to the RWA contract. It will take between 12 and 18 months for an agreement to be worked out between the parties allowing SGA to pay the employees' Social Security to the IRS. This has caused issues on how to have employees' Social Security available to make a payment retroactive to July 1, 2016 once an agreement is finalized.

Government Affairs Update – The California Water Commission adopted the emergency regulations for Groundwater Sustainability Plans and Alternatives as presented by DWR on May 16, 2016. The regulations became effective on June 1, 2016. Staff provided comments from RWA, SGA, and through ACWA provided comments to both DWR and the Commission, and had a significant influence on the final outcome of the regulations. DWR will be developing two additional deliverables over the second half of the year; best management practices and the water available for replenishment report. Staff will continue to engage through the Practitioner Advisory Panel and ACWA Groundwater Committee. Staff continues to coordinate discussions between SGA, West Placer Groundwater Group, and Sutter County interests to plan for compliance in the North American Subbasin. Staff continues to track developments in the SCGA portion of the region.

A letter was drafted to the Public Utility Commission regarding the action they were considering to either adopt a new framework for the water conservation regulations or use the old standards.

Water Efficiency Program Update – Governor Brown issued Executive Order B-37-16 on May 9, 2016 which outlined two major tasks: directed the State Water Resources Control Board (State Water Board) to adjust the Emergency Regulation conservation targets to account for differing water supply conditions throughout the state and directed the Department of Water Resources (Department) and the State Water Board to develop a new water use target framework for longer term water reductions.

In response to the Executive Order, the State Water Board adopted a resolution and updated the Emergency Regulation text on May 18th with final approval obtained by

the Office of Administrative Law on May 31st. The updated Emergency Regulation replaces the supplier mandated conservation targets with a supplier self-certify process that requires suppliers to demonstrate they can meet demands for an additional three drought years.

Financial Documents – The financial reports ending May 31, 2016 were included in the packet.

11. DIRECTORS' COMMENTS

Mr. Roscoe said that Sacramento Suburban Water District staff has been instructed by their board to begin preparing budgets for the 2017 calendar year based on roll back rates. He thanked Mr. Swartz for his presentation to the Sacramento Suburban Water District Board of Directors.

Mr. Yasutake said that the council for the City of Folsom adopted a 2015 Urban Water Management Plan and they have submitted their self-certification.

Ms. Sedwick said that Del Paso Manor has adopted a budget with a rate increase. Even with the rate increase they will be forced to dip into their reserves to cover this year's budget.

Mr. Foster thanked RWA for their letter of support to the PUC. California American currently has a single well in the Rancho Cordova service area that has unmanaged and unregulated groundwater contaminants PFOA and PFOS that the EPA requires testing for. The EPA has moved forward and placed a health advisory indicating that the water should not be consumed if levels are detected over 70 parts per trillion. California American is working through a process with the EPA and the Department of Drinking Water to allow for treatment of the contaminant even though it is not regulated.

Mr. Roscoe mentioned that some states are testing drinking water at schools whether the testing is required or not. Sacramento Suburban Water District is considering taking water samples from all of the schools in their service area.

Mr. Peifer reported that City of Sacramento council adopted their Urban Water Management Plan. The council rejected the staff proposal to go to 10% conservation. They are currently on a 2 day a week watering program.

Mr. Dugan said that Placer County Water Agency has 100 customers on well water in Sheridan. The PG&E Diablo Canyon decommission proposal relates to significant reductions in energy use, replacing it with renewables or non-renewables. This could benefit agencies that have hydropower facilities that are part of the water system.

Chair Short reported that City of Lincoln has removed their water restrictions that are not state mandated. The agency has heard concerns from residents regarding the water conservation restrictions. Their reclaimed system will be turned on in two weeks saving the City \$75,000 and freeing up more water through the Placer County Water Agency system.

ADJOURNMENT

With no further business to come before the Board, Chair Short adjourned the meeting at 10:10 a.m.

By:

Chairperson

Attest:

Nancy Marrier, Board Secretary / Treasurer