Regional Water Authority
Executive Committee Meeting
Final Minutes
March 22, 2017

1. CALL TO ORDER

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

Executive Committee Members
Ron Greenwood, Carmichael Water District
Marcus Yasutake, City of Folsom
Kelye McKinney, City of Roseville
Jim Peifer, City of Sacramento
Robert Dugan, Placer County Water Agency
Kerry Schmitz, Sacramento County Water Agency
Rob Roscoe, Sacramento Suburban Water District
Pam Tobin, San Juan Water District

Staff Members
John Woodling, Rob Swartz, Adam Robin, Nancy Marrier, Cecilia Partridge, Monica Garcia and Katrina Nelson, legal counsel.

Others in Attendance
Harry Laswell, Charles Duncan, Paul Helliker, Michael Raffety and Nicole Krotoski.

2. PUBLIC COMMENT

None

3. CONSENT CALENDAR

The minutes from the Executive Committee meeting held February 22, 2017.

> Motion/Second/Carried (M/S/C) Mr. Greenwood moved, with a second by Ms. McKinney, to approve the minutes from the February 22, 2017 Executive Committee meeting. The motion carried by the unanimous voice vote of all directors present.

Item number 5 was moved ahead of item number 4, but is being reported in the order listed on the agenda.

Chair Peifer entered the meeting. Vice Chair Yasutake handed the gavel over to Chair Peifer for the remainder of the meeting.

4. POWERHOUSE SCIENCE CENTER UPDATE

Harry Laswell, Executive Director & CEO, Powerhouse Science Center provided a presentation on construction progress, funding details and an updated timeline for opening the Powerhouse Science Center. In 2014, RWA agreed to sponsor two exhibits, Water Detective and Open Waters, in the new Powerhouse Science Center to be located on the riverfront in downtown Sacramento. The agreement is for $500,000, paid over the next 15 years. The new Powerhouse Science Center is expected to serve over 320,000 visitors annually from around the Sacramento region as a center for science education, exploration and promotion of the California Capital region.

Mr. Laswell explained that the project is behind schedule due to funding difficulties. He gave the progress timeline for the last year and said that the goal is to close financing in August 2017. Some of the original building plans have been changed due to lack of funding and a later than expected start on construction of the project. The current plan, depending on financing, is to open the Powerhouse Science Center 24 months after construction begins.

After discussion it was agreed that no further annual payments should be made to the Powerhouse Science Center until substantial progress is made on the project. Mr. Dugan volunteered to find out how firm the construction and funding time lines are that were given by Mr. Laswell and report his findings back to the Executive Committee. After Mr. Dugan makes his report to the Executive Committee it will be decided if the information should go to the RWA full Board.

It was suggested that staff reengage with the Powerhouse regarding our agreement over exhibit content to confirm that we control the messaging on our exhibits.

5. UPDATE ON WATER RELIABILITY PLAN

Rob Swartz, Manager of Technical Services, gave a Regional Water Reliability Plan update. As part of development of the Regional Water Reliability Plan, four sub-regional groups met the week of March 6th to discuss potential mitigation actions to address water supply vulnerabilities. Results of these meetings will be discussed with the larger group at the next Regional Water Reliability Plan meeting on April 12th.

He said that staff is currently working on a Drought Contingency Plan and Regional Water Reliability Plan that involves expanding conjunctive use. Staff are attempting to understand that if operations are changed and facility improvements are made how much can be stored in wet periods and how much can be pulled out in dry periods. Staff are wrapping up the vulnerabilities portion of studies and moving into what can be done to mitigate the identified vulnerabilities.

Last month the Bureau of Reclamation issued a Funding Opportunity Announcement for WaterSMART grants to support the development of water marketing strategies that will help prevent water conflicts and will contribute to water supply sustainability. There is a 50 percent local cost share. Eligible projects include development of a water marketing strategy to establish or expand water markets or water marketing activities. This is a timely opportunity for water purveyors in the American River Basin as water marketing strategies are being actively considered in development of both the ongoing Regional Water Authority (RWA) Regional Water Reliability Plan and the upcoming federal American River Basin Study. Mr. Swartz provided a time line for needed actions from the responsible agencies until the completed grant application is submitted. Because RWA is not an eligible applicant, the El Dorado County Water Agency will serve as the lead applicant.

6. FUNDING CalPERS PENSION LIABILITY

At the February 22, 2017 EC meeting, the EC directed staff to explore alternative funding scenarios. Staff and Ms. Krotoski provided an overview of the history of the unfunded pension liability. Ms. Krotoski provided an unfunded liability range of amount owed by RWA, ranging from its June 30, 2016 estimated balance as reported by CalPERS' June 30, 2015 valuation of $174,000 up to $548,000. The differences in the two valuations results from using different discounts rates. The lower unfunded liability used the 7.5% discount rate whereas the higher balance used 6.5%. Recall that CalPERS will begin a three year implementation beginning with the June 30, 2016 valuation of reducing its discount rate to value liabilities, which increases employer obligations.

There was discussion on how to address the possibility of a member leaving RWA with a liability owed. The JPA Agreement is clear that when a member leaves RWA they are responsible for any liability remaining. It was suggested that options be considered for a board policy that would clarify what a termination liability means if a member leaves including funding the unfunded and ongoing liability. Staff will bring back options with recommendations to consider for a policy for members leaving as well as some options on how to address ongoing unfunded liabilities, including a funding policy.

<u>Additional information</u>

The following information was not explicitly discussed during the meeting, but serves as informational context for the discussion and was included in the staff report as part of the EC March 22, 2017 Board packet.

After paying RWA's side fund in FY2012, RWA began setting aside additional funds to help pay down the unfunded CalPERS pension liability in anticipation of GASB 68. While GASB 68 did not require funding of the pension liability, the RWA Board wanted to proactively pay down the unfunded liability. The eventual plan was to pay a large $225,000 lump sum payment in fiscal year 2016, and then pay additional amounts of $25,000 to $42,000 over approximately four additional years. The plan was to pay down the unfunded liability based upon the June 30, 2013 unfunded balance of approximately $337,700[1]. While a new unfunded liability can be generated every year due to investment returns not meeting the discount rate or changes to assumptions, RWA's desire was to pay the lump sum amount known at that time.

In FY 2016, RWA did pay $225,000 to CalPERS, with $87,600 of the funds coming from SGA, sharing 39% of this liability. Additionally, the FY17 budget anticipates paying an additional $42,000 from RWA and $26,900 from SGA towards the liability.

In December 2016, CalPERS announced that the discount rate used to calculate liabilities will be reduced from 7.5% to 7.0% over a three year period. Effectively, CalPERS will recast prior obligations, assuming a lower discount rate, which then creates additional unfunded historical liabilities. While CalPERS will phase in this change in discount rate over three years, there likely may be more changes in the future to the liability, either as a result of discount rate changes or changes to other assumptions. CalPERS' initial goal was to reduce the discount rate to 6.5%, but over a longer time horizon. There will likely be more downward pressure on the discount rate in the future.

The decrease in discount rate will affect both components of RWA's CalPERS payment, increasing cash requirements of each component. The normal cost (the annual required payment of pension benefits to pay for employer current obligations for current employees generated by that year's work) and the unfunded liability amortization payment (catch up payments amortized over time from liabilities that were incurred from the time prior to the current period) will both increase. RWA and SGA will always be required to pay the normal costs, even if they have overpaid the unfunded liability.

The adopted FY18 budget anticipates additional lump sum contributions of $42,000 in FY17 & FY18, while forecasting $45,000 in FY19, $50,000 in FY20, $55,000 in FY21, and $60,000 in FY22 to continue paying down the estimated new unfunded liability. Adopting the FY18 budget did not approve or adopt future payments beyond FY18.

<u>Range of future unfunded liabilities</u>

"Traditional" Unfunded Liability

The most recent valuation report from CalPERS is June 30, 2015 which was received in the fall of 2016. This report does not factor in any anticipated changes to the discount rate as adopted by CalPERS. Additionally, it does not factor in the splitting of the assets and liabilities between RWA and SGA[2]. However, CalPERS

[1] Based upon CalPERS June 30, 2013 annual valuation.

[2] Since SGA's contract with CalPERS begins in FY17, separately calculated liabilities between both organizations will not be actuarially available from CalPERS until sometime in FY19. RWA and SGA can estimate this split based upon CalPERS New Agency Contract Analysis – Valuation Basis: June 30, 2014 memo dated February 17, 2016 for SGA, page 2 of 5. The split of the projected unfunded amortized liability per this memo was approximately 39% to SGA and 61% to RWA.

did provide a memo in January 2017 outlining the anticipated increased annual required contributions, expressed as percentage increases to the normal costs and funding of the unfunded amortized liability (UAL). CalPERS did not indicate what the potential unfunded liability could be as that information is different for each agency, depending upon its historical funding activity.

However, the June 30, 2015 valuation report can give a glimpse of how high this liability could be if RWA/SGA used a discount rate of 6.5% versus the adopted CalPERS rate of 7.0%. At June 30, 2015, prior to any additional lump sum contribution of $225,000, the unfunded liability at 6.5% is estimated to be $725,722 versus the liability at 7.5%, which is estimated to be $385,194, or an approximate $340,500 additional liability as result of a 1% change in discount rate[3]. RWA/SGA could "estimate" the June 30, 2016 liability as follows using 6.5% as a benchmark rate:

	Unfunded Accrued Liability @ 6.5%		Unfunded Accrued Liability @ 7.5%	
As of June 30, 2015	$725,722	(a)	$385,194	(b)
Lump Sum Payment	(225,000)	(c)	(231,778)	(d)
Additional Interest	47,172	(e)	20,355	(f)
As of June 30, 2016 estimated	$547,894	(g)	$173,771	(d)
Rounded	$548,000	(g)	$174,000	

(a) Per CalPERS June 30, 2015 Valuation report, discount rate sensitivity, page 14
(b) 7.5% discount rate used for valuation. Discount rate set to decrease from 7.5% to 7.0% over a three year period.
(c) Actual RWA cash payment of additional lump sum. RWA also made the required lump sum payment, but is not included here for estimation purposes.
(d) Per the CalPERS June 30, 2015 valuation report, page 8
(e) Assumes a 6.5% rate on the beginning balance, prior to lump sum payment. Lump sum payment was made towards the end of FY16.
(f) Amount is deduced based upon CalPERS providing information data points (b) and (d).
(g) The estimated June 30, 2016 liability is based upon a 6.5% discount rate and has not been actuarially calculated. The discount rate is currently set to decrease to 7.0%, so the estimated liability calculated in the table is likely higher than the actuarially determined liability will be at 7.0%.

Based upon the above analysis, RWA's & SGA's unfunded liability is likely estimated to be less than $548,000 if CalPERS maintains a 7.0% discount rate at June 30, 2016. RWA's portion is estimated at 61% while SGA's portion is estimated at 39%. However, it is important to realize that in any investment year that does not achieve a 7.0% discount rate (or 6.5% rate), a new unfunded liability is created for

[3] CalPERS June 30, 2015 Valuation report, page 14, discount rate sensitivity

that particular year to make up the short fall[4]. For example, investment earnings in FY2016 achieved less than 1% earnings **and therefore there is additional unfunded liability that is currently not reflected in the above estimates**.

Hypothetical Termination Liability

The previously estimated liability makes several assumptions, but most notably assumes that RWA will continue to make ongoing future payments into the CalPERS plan for its employees as an ongoing entity. CalPERS also calculates a hypothetical termination liability, which is discounted at lower rates than the regular unfunded liabilities. The termination liability assumes that all risk of the plan will be paid for by the plan and future shortfalls cannot be collected from the employer. The June 30, 2015 valuation report lists the termination liability as follows, based upon two different discount rates:

Unfunded Liability @ 2.0% $2,790,433
Unfunded Liability @ 3.25% $1,917,250

This termination liability may be a more accurate basis in estimating and allocating pension plan obligations for members who no longer wish to continue participation in the organization. Certainly this termination liability would be the basis of funding if RWA chooses to no longer exist as an organization.

Ongoing Normal Cost obligations

The ongoing normal annual PERS payments will also increase due to the change in discount rate. The normal cost represents the estimated pension obligations of current employees at the current discount rate. Even if RWA overfunds its pension obligation, resulting in a pension "asset", RWA is still required to annually fund the normal costs. These increased estimated costs are currently factored into the FY18 adopted budget based upon the January 2017 CalPERS memo.

Cons to funding more than the required amortization of unfunded liabilities

As RWA/SGA becomes more fully funded in its pension plan obligations, it will also share a larger allocation of both investment pools earnings and losses. It is also important for all members to understand that even while paying a targeted unfunded liability, the liability changes both positively and negatively from year to year. RWA/SGA will likely never have a zero unfunded pension liability.

Mr. Greenwood exited the meeting.

7. LEGISLATIVE AND REGULATORY UPDATE

Adam Robin, Legislative and Regulatory Affairs Program Manager updated the Executive Committee on legislative and regulatory issues including Long-Term Water

[4] The new unfunded liability would be amortized over a 30 year time horizon with a 5 year ramp up phase in.

Use Efficiency Legislation, Proposition 218 - SCA 4 (Hertzberg) and the SWRCB Lead Sampling of Drinking Water in California Schools Initiative. Mr. Robin provided an update on Lobbyist Subscription Program activities, membership, and recommended positions/priorities on legislation.

RWA is sponsoring two bills related to Long-Term Water Use Efficiency and Urban Water Management Planning. AB 1654 will ultimately include the Urban Water Management Plan provisions while AB 968 will include the Long-Term Water Use Efficiency target setting provisions. Language for these bills is available that reflects the coalition comment letter that was originally submitted by a group of state water agencies. A communication will be going out to the coalition of water agencies that signed on to the letter asking for their support with these pieces of legislation. Staff is attempting to engage others outside of the water community who might be supportive.

Senator Hertzberg is sponsoring a Constitutional Amendment that would change the California Constitution to address issues associated with Proposition 218 by giving water agencies the ability to provide low income rate assistance to certain sets of their customers and it would also allow them to adopt new types of rate structures. Senator Hertzberg agreed to a list of conditions developed by the ACWA Board of Directors and State Legislative Committee that would allow ACWA to sponsor the bill.

Mr. Dugan exited the meeting.

Under the Lead Sampling of Drinking Water in California Schools Initiative every water system in California received a permit amendment in January requiring them to provide lead sampling services to K through 12 schools upon request. Local agencies have a variety of concerns related to the permit amendment, including communication responsibilities in the event of an exceedance, the cost of sampling, and the precedent of creating a statewide program through permit amendments. A couple of water agencies around the state have filed petitions for reconsideration of the Board's action issuing the permit amendments.

Mr. Robin reviewed the bill packet that was enclosed in the board packet, identifying each bill with RWAs recommended bill position. There was discussion on the recommendations and if they represent where RWA's interests are. All bills included in the packet will be monitored for any language change that would affect RWA's recommendations. After discussion on SB 427 it was decided that the recommended position be changed from oppose unless amended to oppose.

> M/S/C Mr. Yasutake moved, with a second by Ms. Schmitz, to adopt bill positions as presented with the exception of the recommended position on SB 427 changed to oppose. The motion carried by the unanimous voice vote of all directors present.

8. SUBCOMMITTEE UPDATES

At the January meeting of the Executive Committee, Chair Peifer appointed three subcommittees to work on specific issues. Kerry Schmitz was appointed Chair of a Conference/Education Subcommittee that also included Rob Roscoe, Pam Tobin and Kelye McKinney. Pam Tobin, Ron Greenwood, Marcus Yasutake and John Woodling were appointed to an Office Space/Lease Subcommittee to evaluate office space options for RWA when its lease on 5620 Birdcage expires in 2018. Robert Dugan was appointed Chair of a Membership Subcommittee to evaluate and help recruit potential new members.

The subcommittees gave an update at the February Executive Committee meeting. The Conference/Education Subcommittee planned to reach out to other agencies to partner with them in facilitating an event. Mr. Dugan with the Membership Subcommittee requested John Woodling, Rob Roscoe and Jim Peifer join his membership subcommittee effort. The Office Space/Lease Subcommittee received information on the office space requirements.

Chair Peifer said that the membership committee will be meeting with the City of Davis soon.

Ms. Tobin reported for the Office Space/Lease Subcommittee giving three options to consider before the current office lease expires August of 2018. The current lease agreement can be extended at the current rate or a new rate determined by the landlord, RWA can enter into a new lease agreement at a new location at an amount to be determined or the current office building can be purchased.

There was discussion about the current office space accommodations and if they would be sufficient for future growth of RWA. The committee will report back at the next Executive Committee meeting on the vacancy rate in the current building and why the building is half vacant, the vacancy rate of similar buildings in the area, renting versus owning costs and possible lease terms from the leasing company.

Ms. Schmitz reported that the Conference/Education Subcommittee has returned from a short hiatus and plans to move forward reaching out to potential partners to facilitate an event. Since an event would be a big undertaking it was suggested that the committee partner with someone for consulting assistance in the planning process.

9. MAY BOARD MEETING AGENDA

With the passage of the FY18 budget at the March Board meeting, there is the opportunity to take time for a number of possible updates and presentations at the May Board Meeting. Staff requested input from the Executive Committee on alternatives to pursue.

There were suggestions for the May 18th RWA Board meeting agenda including a presentation by the Nevada Irrigation District on progress of the Centennial

Reservoir Project, a presentation update by Ken Payne, Interim General Manager for El Dorado County Water Agency on their activities, an update on the American River basin and an update on the Sites Reservoir.

A draft agenda for the May 18th RWA Board meeting will be presented to the Executive Committee for approval at the April meeting.

10. EXECUTIVE DIRECTOR'S REPORT

SGMA Update – Five Groundwater Sustainability Agencies are expected to form to fully cover the North American Subbasin. Representatives of the entities are meeting monthly to scope the development of a single Groundwater Sustainability Plan for the subbasin. The Department of Water Resources is planning to release draft guidelines for Proposition 1 funded grants to support Sustainable Groundwater Management within the next several weeks.

Ms. Schmitz said that in the South American Subbasin there are overlapping GSAs between Sacramento Central Groundwater Authority and other agencies. On April 11th the County will be having a public hearing to accept responsibility for any and all white space in the county as of June 30th.

Strategic Communications Effort – RWA staff and consultants are coordinating closely with a small group of RWA members that have engaged a consultant to support outreach and coalition building regarding long-term water efficiency legislation and regulatory action.

Water Efficiency Update – In January 2017, the region saved 9.6% compared to January 2013. For reference, the region saved 11.5% in 2016, 2.6% in 2015, and had an increase of 18.9% in 2014, all compared to January 2013. The format of the monthly savings summary report has been updated to align with the start of a new calendar year and the modified State Water Board timeline of June 2016 through current month to represent the implementation of the "stress test" methodology.

RWA Outreach – Mr. Woodling was a panelist at the ACWA Legislative Symposium on March 8, 2017. Mr. Woodling has been conducting one-on-one meetings with RWA members, with the goal of meeting with each member at least once annually. RWA held a Board Member Orientation session after the regular board meeting on March 9, 2017. Mr. Woodling served on a drafting group to support ACWA's development of a Board-approved Policy Statement on Bay-Delta Flow Requirements. Staff participated in the Metro Chamber State Legislative Summit on May 9, 2017.

11. DIRECTORS' COMMENTS

Mr. Roscoe asked if RWA will be adopting a resolution in support of the ACWA policy statement on Bay-Delta Flow Requirements. It was suggested that a resolution be added to the April Executive Committee meeting agenda for recommendation to the full Board in May.

Ms. McKinney exited the meeting.

Chair Peifer said that Felicia Marcus will be speaking at a Water for People Group Water Day event at Natomas Track 7 Brewing scheduled for 5:30 p.m.

ADJOURNMENT

With no further business to come before the Executive Committee, Chair Peifer adjourned the meeting at 11:18 a.m.

By:

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Chairperson

Attest:

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Nancy Marrier, Board Secretary / Treasurer