MINUTES OF A SPECIAL MEETING OF THE
BOARD OF DIRECTORS OFTHE
OTAY WATER DISTRICT
April 4, 2016

1. The meeting was called to order by President Lopez at 3:02 p.m.

2. ROLL CALL

Directors Present:	Croucher, Lopez, Robak (arrived at 3:03 p.m.), Smith and Thompson
Directors Absent:	None
Staff Present:	General Manager Mark Watton, General Counsel Dan Shinoff, Asst. GM German Alvarez, Chief Financial Officer Joe Beachem, Chief of Water Operations Pedro Porras, Chief of Engineering Rod Posada, Chief of Administration and IT Services Adolfo Segura, Assistant Chief of Water Operations Jose Martinez, District Secretary Susan Cruz and others per attached list.

3. PLEDGE OF ALLEGIANCE

4. APPROVAL OF AGENDA

A motion was made by Director Croucher, and seconded by Director Lopez and carried with the following vote:

Ayes: Directors Croucher, Lopez, Smith and Thompson
Noes: None
Abstain: None
Absent: Director Robak

to approve the agenda.

5. PUBLIC PARTICIPATION – OPPORTUNITY FOR MEMBERS OF THE PUBLIC TO SPEAK TO THE BOARD ON ANY SUBJECT MATTER WITHIN THE BOARD'S JURISDICTION BUT NOT AN ITEM ON TODAY'S AGENDA

No one wished to be heard.

<u>WORKSHOP</u>

6. WORKSHOP ON OTHER POST EMPLOYEE BENEFITS ACTUARIAL VALUATION

Finance Manager Kevin Koeppen indicated that this workshop is to provide a review of the actuarial study presented to the board in January 2016. He introduced Mr. John Bartel, President of Bartel and Associates, LLC. He has more than 40 years of employee benefits experience, primarily in pensions and retiree healthcare consulting. His firm provides consulting services for over 300 California Public Sector Organizations. Mr. Koeppen also reviewed Mr. Bartel's professional affiliations.

Mr. Bartel reviewed definitions of terminology utilized in the actuary study (please reference slide numbers 1 through 4). He reviewed the reasons why agencies decide to prefund or not prefund their OPEB obligations (please reference slide number 5 through 6). He indicated that he recommends prefunding retiree OPEB obligations as it is fiscally prudent to do so. He stated that it prevents an increase in the unfunded liability and prevents a cost, as an increasing percentage of pay. He further stated that he recommends prefunding the normal cost plus an amortization of the unfunded liability over an appropriate number of years. The goal of prefunding is to get as close as possible to the value of benefits to the ratepayer for services being provided to the ratepayer. In essence, the District is paying today, the funds that will be allocated to employees' OPEB in the future. He noted that by the District placing the funds into a Trust, it will earn a higher rate of return which allows the actuary to use a higher discount rate than if the obligation was not prefunded.

He reviewed the current OPEB benefits and eligibility for the benefits (please reference slide number 7).

In response to an inquiry from Director Smith, Mr. Bartel indicated that the Otay WD was one of the first to recognize (about 15 years ago) that the District should set funding aside for OPEB. He stated that other agencies did not prefund their OPEB as it was not yet something that was being discussed. He indicated that over the last 15 to 20 years, the number of retirees to active employees has grown significantly higher. Thus, previously, there were far fewer persons receiving retiree benefits. He indicated that unless an organization had an actuarial valuation performed, they really did not fully understand how the cost of retiree benefits would grow. It wasn't until the late 1980's that private sector entities were required to look at the cost of retiree benefits. Staff noted that a CalPERS type trust was not available until about three (3) years ago and the District joined the trust as soon as it was eligible to do so. It was noted that if the funds are in reserves, they are still considered a liability on the books. Once the funds go into a Trust, they are no longer an unfunded liability.

Director Croucher indicated that he appreciates receiving this presentation as it confirms that the District is going in the right direction in prefunding its OPEB and that it is a good business practice.

Mr. Bartel indicated, in response to an inquiry from President Thompson, that when an organization does not prefund, Statement 45 indicates that the discount rate should be determined by the long term rate of return the organization is receiving on its funds. What is most common is 50 to 75 basis points. There is a strong argument that that is too low. He stated that they utilize about 3.5% to 4%. However, the new Accounting Standards Statement 75 no longer leaves it up to judgement. The new standard will require agencies that are not prefunding their OPEB, to utilize a 20-year high quality municipal bond rate index. The discount rate for these instruments are between 3% and 3.5%.

Director Croucher stepped off the dias at 3:43 p.m.

Mr. Bartel continued to review current OPEB benefits and eligibility for the benefits (please reference slide number 7).

Director Croucher returned to the dias at 3:47 p.m.

He also reviewed the District's funding policy for OPEB (Please reference slide number 8). Mr. Bartel indicated in response to an inquiry from President Thompson that the District's unfunded liability amortization period is generally shorter than other agencies, but it is similar. Most agencies began prefunding shortly after the Otay WD. His firm does have a few organizations who have shorter amortization periods than Otay WD; approximately 15 years or thereabout.

Director Lopez stepped off the dias at 3:51 p.m.

Mr. Bartel confirmed that Otay WD employees receive, along with their CalPERS pension, medical and dental benefits. In response to an inquiry from Director Smith, he indicated that the average age District employees retire is 58 to 59 years old. He stated the District pays a higher premium for six (6) to seven (7) years and then a much lower amount once the retiree is Medicare eligible. He indicated that about one-third of the total liability is for early retirement (before the age of 65). He indicated that there is no question that the cost is much lower once a retiree reaches 65 and is eligible for Medicare.

Director Lopez returned to the dias at 3:55 p.m.

He reviewed the demographics of the District's current employees and retirees from 2009 to 2015 (please reference slide number 9). He also highlighted the assumptions that his firm utilized in the actuarial study (please reference slide numbers 10 to 12). In response to an inquiry from President Thompson, Mr. Bartel indicated that when his firm performed the evaluation, they knew what the District's 2016 premiums would be and assumed that the 2017 premiums would be 7% higher. They assumed inflationary increases would occur, however, there is a limit to healthcare's portion of the Gross Domestic Product (GDP). Thus, his firm's study estimates that around 2021, healthcare cost will reach that limit.

Mr. Bartel reviewed the current actuarial valuation as of June 30, 2015 and the valuation on June 30, 2013 (please reference slide number 13). He stated that the accrued liability as of June 30, 2015 is approximately $23.7 million. He stated that a little over half of this amount is for current retirees. The actuarial value of the fund is approximately $17 million and, thus, the District is 71% funded which is up from 52% (funded) on June 30, 2013. He noted that, on average, his clients are approximately 40% to 50% prefunded and that the District is ahead of most agencies in the State.

He stated that the District's change in unfunded liability is driven by where the liability itself is going and where the assets are going. In the actuarial report of June 30, 2013 it was estimated that the actuarial accrued liability on June 30, 2015 would be $25.5 million. The actual accrued liability on June 30, 2015 was $23.7 million. Mr. Bartel indicated that approximately one-half of the reduction was due to a decrease in liability as premiums were lower than expected and an additional decrease in liability of $900,000 was associated with a few employees who did not retire that the District had expected to retire. The increases to the accrued liability were all related to actuarial assumptions (CalPERS demographic assumptions, projected mortality improvements, hardship retirement assumptions and PPACA excise tax) of approximately $17.5 million. He noted that further decreasing the accrued liability are the Annual Required Contributions (please reference slide number 16) that the District is making ($1.4 million in 2014/2015 and $1.2 million in 2015/2016). He indicated that the ARC is less as the District's experience is lowering its liability and the additional contributions (ARC) is lowering the District's unfunded liability, which together is lowering the cost from $11.4 million to $9.5 million. He indicated that assuming the District continues to make the ARC payments it will further lower the District's contribution as a percentage of pay to 8.9%.

In response to an inquiry from Director Smith, Mr. Bartel indicated that his firm has adjusted its assumptions due to the decrease in the actual outcome in the actuarial accrued liability valuation for June 30, 2015. Mr. Bartel also indicated in response to another inquiry from Director Smith that life expectancy, on average, for a male who is 60 years old today is 82-83 years old and females are expected to live a little longer than that. A male who will be 60 year old 10 years from now is expected to live another year longer than a male who is 60 today and a male who will be 60 years old 20 years from now is anticipated to live another year longer (2 additional years) than a 60 year old male today. He stated, thus, mortality (life expectancy) is expected to improve over time.

President Thompson inquired what demographic assumptions Mr. Bartel's firm utilized to determine the demographics of the Otay WD's employees for the future. Mr. Bartel indicated that his firm utilizes the District's current population and does not try to anticipate the demographics of new hires until employees are actually hired as it will not have much impact on how much the District should be setting aside in the short and long run for OPEB.

In response to another inquiry from President Thompson, Mr. Bartel explained that two things are driving down the unfunded liability: 1) the decrease in the actuarial liability and 2) the increase in the value of assets. The District's liability did not go up as much as anticipated and the assets in the fund went up higher than anticipated, which is reducing the OPEB liability. Staff indicated that each year they review the funding of the OPEB fund in the budget presentation to the board, which is decreasing this liability. Thus, the District's expense in future years to pay for this liability is decreasing, which then has a positive impact on the rates.

Director Croucher commented that in July 2011 the District had presented the cost for the enhanced OPEB and it was indicated in the presentation that in the first couple of years it would cost a little bit more, however, the costs would go down over time. He inquired if the District was able to confirm these assumptions. Staff indicated that those assumptions have been confirmed. Director Croucher suggested that the District share these results with the Taxpayers' Association so they are aware that the assumptions presented by the District at that meeting were correct and have been validated. It was indicated that what the public did not understand is that employees gave up benefits for the enhanced benefits proposed in July 2011.

General Manager Watton also shared that the District did have another well recognized actuary firm, Milliman, Inc., verify the actuary report prepared by Bartel and Associates during that time and Milliman, Inc. agreed with the findings of the Bartel and Associates actuary report.

Mr. Bartel reviewed the Member Contributions and the OPEB funding projections through 2019 (please reference slide numbers 17 to 19) and indicated that in 2014 the cost was $43,000 which will then drop to <$142,000> (or savings of $142,000) by year 2019 (please reference slide number 19). Future employee contributions will significantly more than offset the cost of the enhanced benefits and it is expected that the District will be fully funded by approximately 2021. President Thompson inquired what the projected savings were in July 2007. Mr. Bartel indicated that his recollection is that the numbers were very close to what is presented in today's report. He indicated that he would go back and look at the study and provide the information following the board meeting.

It was discussed that staff has explored whether it would be best for the District to allow the OPEB Trust to fund the enhanced benefit or have the District fund the Trust until it is fully funded. It is estimated through the modeling, when the trust is fully funded, it would fund itself. Thus, it has been determined that the District is better off advanced funding the Trust.

Director Croucher left at 4:50 p.m.

Director Robak indicated that he felt Mr. Bartel's firm did a good job on the analysis of the OPEB fund. He stated that the actuarial report shows the District is in good shape and the District is on track to fund sooner than later.

President Thompson indicated that he felt that the District should communicate this information with the public so that they are aware that the Otay WD is a well run agency and that the Actuarial Study on the OPEB fund demonstrates this.

He stated that the District had made a decision based on the study in 2011 and that it continues to keep an eye in this area of the District's finances to assure that the District is not doing anything that is not in the best interest of its ratepayers and the District in the long term. He stated this workshop provides a statement about the District's seriousness in monitoring this and other financial issues to assure the District continues to keep its "AA" rating and assure it is on solid financial ground. He thanked Mr. Bartel for the information that his firm has provided as it has assisted the District in making good decisions.

7. ADJOURNMENT

With no further business to come before the Board, President Lopez adjourned the meeting at 5:04 p.m.

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President

ATTEST:

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District Secretary