MINUTES OF THE FINANCE COMMITTEE
OF MT. VIEW SANITARY DISTRICT
OCTOBER 7, 2009

The Finance Committee of the Mt. View Sanitary District convened a duly noticed Meeting at the Mt. View Sanitary District Conference Room, 3800 Arthur Road, Martinez, County of Contra Costa, State of California on October 7, 2009, at 8:05 a.m.

ROLL CALL

PRESENT: Vice President Stanley R. Caldwell and Director Elmer J. Schaal.
ABSENT: None
Also Present:STAFF – District Manager Michael D. Roe, and Board Secretary Sheri L. Riddle, Technical Services Manager Irene M. Chang, Engineers Randolph W. Leptien and Mariam Munshi, and Thomas Gaffney of Bartle Wells Associates.

PUBLIC COMMENT

None

NEW BUSINESS

1. REVIEW OF REVISED - GOVERNMENT ACCOUNTING STANDARDS BOARD (GASB) - STATEMENT 45 ACTUARIAL VALUATION OF "OTHER POST EMPLOYMENT BENEFITS" (OPEB)

A. REPORT FROM STAFF AND/OR NICK FRANCESCHINE OF NORTH BAY PENSIONS

Vice President Caldwell inquired about the definition of the projected unit cost mentioned in the Actuarial Report. Director Schaal asked for clarification with regard to the projected lifespan after 65. District Manager Roe suggested a conference call to Nick Franceschine of North Bay Pensions who performed the Actuarial Report.

A conference call to Nick Franceschine of North Bay Pensions occurred wherein the following items were clarified or explained:

- The difference between Entry Age Normal Funding Method and the Projected Unit Credit Funding Method is that each method uses a different budgeting way to pay off the OPEB obligation. The Projected Unit Credit Method is based on years of service. The unit cost for each employee is different depending on how old they are and how long they worked. This method starts with a lower cost which then escalates. In the Entry Age Normal Method each persons OPEB cost is figured out and the amount of OPEB cost is a fixed amount for each year of retirement.

- Thirty Years is the longest you can amortize the OPEB costs. After 30 years the amortization layer goes away, normal costs would continue forever as long as you have people working, and the retiree portion of benefit costs would be self-funded.
- Funding Option 1 represents continuation of a pay as you go approach and would include an OPEB balance sheet obligation and an ARC adjustment. Funding Option 2 assumes joining the a irrevocable OPEB Trust with an assumed discount rate of 7.75%. There is no balance sheet obligation and the ARC adjustment will always be zero with Funding Option 2.
- The report assumes a 6% increase in health care costs for the first several years.
- Young people are more expensive than older people because they are getting benefits farther in the future and the inflation is cumulative.
- The life expectancy of someone who is 65 now is about 20 years on average.
- If PERS over time only earns 6%, then PERS may adjust down the discount rate from 7.75% which would mean all costs, including amortization, will go up. The PERS discount rate has not changed since the recession hit.
- It is not mandatory to pre-fund OPEB. You can fund on a pay-as-you-go basis. You would then have to show the OPEB obligation on financial statements.

After conclusion of the conference call, Mr. Gaffney indicated that prefunding obligations are extremely difficult to calculate and are based on a bunch of assumptions. Even if you pre-fund, there is no guarantee it will cover everything, but at least you've funded the lions share. The difference in the options to pre-fund is the allowance of a higher discount rate with the CalPERS Trust. Mr. Gaffney discussed the Market and it's affect on PERS investments. Mr. Gaffney also reviewed the current rates for bonds and loans and stated that he just sold a water bond for 2.99 %.

District Manager Roe discussed the Committee's desire to hold another meeting with the PARS representative next week assuming the Board decides to prefund.

In response to Vice President Caldwell's inquiry as to whether to partially or fully pre-fund the OPEB obligation, Mr. Gaffney stated the reason to pre-fund the obligation is to get the liability off the books. If the Board partially funds, it will still have a liability to show on the District books. The liability would be more than 50% of obligation. It is unknown whether the liability will affect borrowing. Vice President Caldwell noted that if the Board doesn't prefund, the liability will grow. A general discussion ensued with regard to the benefit of getting the liability off the books.

B. PROVIDE DIRECTION TO STAFF

There was no direction provided to staff.

2. REVIEW OF 5 YEAR REVENUE AND EXPENSE PROJECTION

A. REPORT FROM STAFF

Mr. Gaffney reviewed Tables which he developed then later were expanded and modified by District Engineer Leptien, Mariam Munshi and Secretary Riddle. These 5-year projection tables contemplated different scenarios that include rate increases and/or loan proceeds. The tables depict several different scenarios on how the District might fund the Capital Improvement Plan (CIP) and the possible impacts of various combinations of borrowing and rate increases. Based on the presented tables, prefunding of OPEB's will not be a significant driver of future operating expenses.

Engineer Leptien discussed the necessity to obtain a loan to fund the CIP. Mr. Gaffney stated it is necessary to have the minimum reserve to protect the District. Staff noted the need to update the CIP in order to finalize the rate study that Mr. Gaffney's office is preparing. A general discussion of the State Revolving Fund occurred. The Committee and staff discussed the need to review and finalize the CIP document, noting the Plant Audit must be completed prior to finalization of the CIP.

B. PROVIDE DIRECTION TO STAFF

There was no direction provided to staff.

3. OPEB PRE-FUNDING OPTIONS

A. REPORTS FROM STAFF AND TOM GAFFNEY OF BARTLE WELLS ASSOCIATES

The Committee reviewed and answered the following questions with Staff and Mr. Gaffney's participation:

1. Would prefunding the accrued OPEB liability be in the District's best interest? Prefunding the accrued OPEB liability will be in the District's best interest as prefunding takes liability off the books and the District is also in control of this cost variable at an earlier stage. Prefunding allows the District to use investment proceeds to fund significant portions of the cost of providing OPEB's to employees.

2. Would partial prefunding of the accrued liability be in the District's best interest? Partial prefunding of the accrued liability is not in the District's best interest as it will create a liability that shows up on the books and there is a potential for the costs to be uncontrollable.

3. Should the Board consider a rate increase to fund the accrued OPEB liability? Yes they should, however the potential funding of the ARC is not a significant driver of costs, but should not be absorbed into the budget indefinitely. Contemplation for a OPEB based rate increase should be deferred two to three years and be considered in combination with the cost of CIP.

4. Which GASB OPEB 45 Trust should the District invest in should the Board approve a prefunding plan? The Committee would like to hold another Finance Committee meeting to determine which trust fund the District should invest in before presenting its final findings to the Board of Directors. At this meeting the committee will be considering information presented by the Public Agency Retirement System (PARS). PARS is one of the TRUSTS providing an alternative to the CalPERS.

B. PROVIDE DIRECTION TO STAFF

The committee believes OPEB should be prefunded @ 100% but will make a final recommendation after meeting with the PARS representative. The Committee will recommend to the Board that there be a second Finance Committee meeting to review the CalPERS Trust versus the PARS Trust Fund program. The Committee will provide a recommendation to the Board after that meeting occurs. The committee believes that the cost of prefunding OPEB should be included in a future rate increase anticipated to be needed to fund the future CIP.

District Manager Roe thanked Engineer Leptien, Ms. Munshi, Mr. Gaffney and Secretary Riddle for their work on the tables and stated that a draft staff report will be provided to the Committee for their review via email today.

ADJOURN – THE NEXT SCHEDULED FINANCE COMMITTEE MEETING IS ON TUESDAY, OCTOBER 13, 2009 AT 10 A.M.

The Finance Committee meeting adjourned at 9:44 a.m.

Sheri L. Riddle, Board Secretary