NOVATO SANITARY DISTRICT

Meeting Date: May 22, 2017

The Board of Directors of Novato Sanitary District will hold a regular meeting at 5:30 p.m., Monday, May 22, 2017, at the District Offices, 500 Davidson Street, Novato.

Materials related to items on this agenda are available for public inspection in the District Office, 500 Davidson Street, Novato, during normal business hours. They are also available on the District's website: www.novatosan.com. Note: All times and order of consideration for agenda items are for reference only. The Board of Directors may consider item(s) in a different order than set forth herein.

AGENDA

1. PLEDGE OF ALLEGIANCE:

2. AGENDA APPROVAL:

3. PUBLIC COMMENT (PLEASE OBSERVE A THREE-MINUTE TIME LIMIT):

This item is to allow anyone present to comment on any subject not on the agenda, or to request consideration to place an item on a future agenda. Individuals will be limited to a three-minute presentation. No action will be taken by the Board at this time as a result of any public comments made.

4. REVIEW OF MINUTES:

a. Consider approval of minutes of the May 8, 2017 regular meeting.

5. CONSENT CALENDAR:

The General Manager-Chief Engineer has reviewed the following items. To his knowledge, there is no opposition to the action. The items can be acted on in one consolidated motion as recommended, or may be removed from the Consent Calendar and separately considered at the request of any person.

a. Approve regular disbursements, May 9 – May 22, 2017.
b. Ratify May 2017 payroll and payroll related disbursements.

6. ANNUAL BUDGET:

a. *Hamilton Wetlands/Outfall Integration, Account No. 72707:* Receive update on Hamilton (Bel Marin Keys V) Wetlands Restoration project - Jeff Melby, Project Manager, State Coastal Conservancy (SCC).
b. *Cogeneration, Account No. 72708:* Receive update on cogeneration and alternative energy options, and provide direction, if any.
c. *Lateral Replacement Program, Account No. 72706-1:* Receive update on sewer lateral grant program.
d. Fiscal Year FY17-18 Budget Workshop: outline FY17-18 budget elements.
e. Receive Fiscal Year FY17-19 Preliminary Capital Improvements Program (CIP) Budget - Summary of Anticipated Project Work.

f. Set the date of June 26, 2017 for public hearing on individual sewer service charges, and adoption of a resolution confirming report on sewer service charges and collection on county tax rolls.

7. STAFF REPORT:

a. Receive report on Comprehensive Annual Financial Report (CAFR) Award from the Government Finance Officers Association (GFOA).

8. GRAND JURY REPORT:

a. Receive 2016-17 Marin County Civil Grand Jury report titled “Marin’s Retirement Health Care Benefits – The Money Still Isn’t There”, dated May 17, 2017, and authorize staff and District Counsel to prepare a draft response for Board consideration.

9. COLLECTION SYSTEM OPERATIONS:

a. Authorize purchase of a hydro-flusher truck, and authorize the General Manager Chief Engineer to execute a purchase order with National Auto Fleet Group in the amount of $170,052.12 (plus applicable taxes and fees).

10. AD-HOC PERSONNEL COMMITTEE:

a. Performance Evaluation, General Manager-Chief Engineer: The Ad Hoc Personnel Committee recommends that the Board receive the Committee’s report and recommendation, and approve a 5% merit increase on base salary, payable beginning with fiscal year 2016-17, to the General Manager–Chief Engineer.

11. BOARD MEMBER REPORTS AND REQUESTS:

a. North Bay Water Reuse Authority (NBWRA) Board meeting, May 22, 2017, (Long).

12. GENERAL MANAGER’S REPORT AND ANNOUNCEMENTS:

13. ADJOURNMENT:

Next Resolution No. 3108.

Next regular meeting date: Monday, June 12, 2017, 5:30 PM, at the Novato Sanitary District office, 500 Davidson Street, Novato, CA.

In compliance with the Americans with Disabilities Act, if you need special assistance to participate in this meeting, please contact the District at (415) 892-1694 at least 24 hours prior to the meeting. Notification prior to the meeting will enable the District to make reasonable accommodation to help ensure accessibility to this meeting.

NOVATO SANITARY DISTRICT

Board Meeting Minutes

Meeting Date: May 8, 2017

A regular meeting of the Board of Directors of the Novato Sanitary District was held at 5:30 p.m., Monday, May 8, 2017, preceded by a closed session beginning at 5:00 p.m. at the District offices, 500 Davidson Street, Novato.

At 5:02 p.m., President Peters announced the Board would meet in closed session to discuss the following matters on the Closed Session Agenda:

CLOSED SESSION: PUBLIC EMPLOYEE EVALUATION:
General Manager-Chief Engineer (Government Code Section 54947).

BOARD MEMBERS PRESENT FOR CLOSED SESSION: President Jerry Peters, Members Carole Dillon-Knutson, William C. Long, Jean Mariani, and Brant Miller.

STAFF PRESENT: General Manager-Secretary Sandeep Karkal joined the closed session at 5:18 p.m.

Closed session ended at 5:33 p.m.
Open session began at 5:37 p.m.

BOARD MEMBERS PRESENT FOR OPEN SESSION: President Jerry Peters, Members Carole Dillon-Knutson, William C. Long, Jean Mariani, and Brant Miller.

STAFF PRESENT: General Manager-Secretary Sandeep Karkal and Administrative Secretary Julie Hoover.

ALSO PRESENT: John Bailey, Plant Manager, Veolia Water (arrived at 5:43 p.m.)
Erik Brown, Technical Services Manager, Novato Sanitary District
Steve Krautheim, Fields Services Manager, Novato Sanitary District
Dale Thrasher, Joint Health and Safety Program Director
Laura Creamer, Finance Officer, Novato Sanitary District

PLEDGE OF ALLEGIANCE:

REPORT OUT OF CLOSED SESSION: Per President Peters, no report out of closed session.

AGENDA APPROVAL: The agenda was approved as presented.

PUBLIC COMMENT: None.

REVIEW OF MINUTES:

Consider approval of minutes of the April 24, 2017 meeting.

On motion of Director Long, seconded by Director Mariani, and carried with the following vote, the Board meeting minutes of April 24, 2017 were approved. Ayes: Peters, Long, Mariani, Miller. Abstain: Dillon-Knutson (absent from April 24th meeting)

CONSENT CALENDAR:

President Peters called for a motion on the Consent Calendar items as follows:

a. Approve Board member disbursements in the amount of $2,141.87, capital project disbursements in the amount of $134,273.46, and regular disbursements in the amount of $396,575.14.
b. Receive Deposit Summary, April 2017.
c. Receive 3rd Quarter Investment Report, Fiscal Year (FY) 2016-17.
d. Receive FY 16-17 3rd Quarter Financial Report.
e. Ratify District Statement of Investment Policy, Policy 3120 – Investment of Public Funds.
f. Approve a contract in the not-to-exceed amount of $75,000 with Duke's Root Control, Inc., (Duke's), and Authorize the General Manager-Chief Engineer to execute it.

On motion of Director Miller, seconded by Director Dillon-Knutson, and carried unanimously, the above listed Consent Calendar items were approved.

WASTEWATER OPERATIONS:

- Receive Wastewater Operations Report, April 2017. The General Manager noted that Veolia Project Manager John Bailey was delayed and that his report would follow the Collections System Operations and Reclamation Facilities reports.

Field Services Manager Steve Krautheim provided the Collection System Operations report for April 2017. He summarized the maintenance, stating that the Collections department cleaned 56,955 lineal feet of sewer pipelines, televised 47 line segments, totaling 8,727 feet, and conducted 7 sewer main inspections, totaling 749 feet. He further stated that there were no lost time accidents in April, for 2,240 accident-free days, and noted that there were no sanitary sewer overflows (SSOs) in April.

The Field Services Manager then summarized the Reclamation Facilities report for April 2017. He stated that the rancher began cutting pasture grass on Site 7 and completed annual weed abatement work in Parcel 28. Also, staff completed mowing along the roadways on all sites, and that both drainage pump stations continue to pump accumulated storm water from all sites.

Veolia Water Project Manager John Bailey provided an overview of the Treatment Facilities Monthly Operations Report for April. The Project Manager reviewed the treatment plant performance summary and noted that there were no excursions or violations for the month. He outlined the safety training that was completed in April, and stated that safety performance was excellent with a total of 2,532 accident-free days. He reported that the average flow was 5.97 MGD (million gallons/day) with a peak hourly flow of 11.53 MGD in April.

The Project Manager stated that the recycled water facility started production during the month. He reviewed the period's key events, and monthly safety and training topics. He stated that proficiency testing was conducted in April and that Veolia achieved 100% acceptable data in the study and was awarded a Certificate of Excellence from ERA (Environmental Resource Associates). He stated that this achievement was a collaboration between Veolia employees, Kurt Hawkyard and Liz Falejczyk, and North Marin Water District (NMWD) employee, Jessica Bena. He noted that there were no neighborhood contacts for the month.

GRAND JURY REPORT:

- Review the following items and provide direction: (i) 2016-17 Marin County Civil Grand Jury report titled "Overcoming Barriers to Housing Affordability", and (ii) draft response prepared by District Counsel. The General Manager noted that the Grand Jury report titled "Overcoming Barriers to Housing Affordability" was presented and discussed at the April 24th meeting, and that upon close of discussion at that meeting, the Board had directed District Counsel Kent Alm to prepare a draft response based on Board discussion. The General Manager stated that at this time, District Counsel had prepared the draft response with assistance from staff, and that the response is provided in the Board Agenda packet for this meeting for the Board's consideration and further direction.

Directors Miller and Long commented that the draft was appropriate and well written.

On motion of Director Mariani, seconded by Director Dillon-Knutson, and carried unanimously, the draft response prepared by District Counsel to the Grand Jury was accepted with minor edits, and staff was directed to submit the response to the Marin County Civil Grand Jury.

STAFF REPORTS:

- Receive staff report: Attendance at the California Water Environment Association (CWEA) Annual Conference, Palm Springs, April 26-29, 2017. The General Manager noted that Field Services Manager Steve Krautheim and Collections System Worker II Aaron Hendricks had attended the conference. Field Services Manager Steve Krautheim provided an overview of his attendance at the CWEA conference. He stated that as the CWEA Northern Regional Committee Chair, much of his time was spent performing directorial duties. He also served as a host for several presentations on the Collection System and Pump Station Maintenance tracks as well as a host and facilitator on the Silver Tsunami track.

- Receive staff report: Draft Marin County BayWAVE Sea Level Rise Vulnerability-Assessment report. The General Manager pointed out that the Draft Executive Summary was part of the agenda packet and that the full Sea Level Rise Vulnerability Assessment Public Review Draft was printed and available for review. He stated that Technical Services Manager Erik Brown and Field Services Manager Steve Krautheim have been working with Marin County Department of Public Works (DPW) to review the portion of the report that address the Novato Sanitary District.

Director Long stated that he attended a public meeting and presentation at Novato City Hall on May 1st regarding this report. He read a section of the BayWAVE report which addressed risks to the Novato Sanitary District: page 97, paragraphs one and two, and asked if District staff agreed with the findings.

The General Manager stated that the draft BayWAVE report has some inaccuracies regarding District facilities, and noted that staff, will work with DPW to correct these. Technical Services Manager Erik Brown addressed the Board and discussed several inaccuracies described in the report. He noted that the sea-wall/berm system was improved in the treatment facility upgrades, and can be further raised in the future if needed. He stated that staff had prepared a mark-up red-line version of page 97 with the District's comments, and he provided a copy to the Board.

The General Manager stated that any Board comments should be provided to staff so they could be conveyed to Chris Choo, Program Manager, County of Marin Department of Public Works, and her team. Director Long stated that he would welcome hearing comments from other District Managers regarding the report and the findings made for their districts.

BOARD MEMBER REPORTS AND REQUESTS:

- North Bay Watershed Association (NBWA), meeting of May 5, 2017. Director Miller discussed his attendance at the NBWA meeting which was held on Friday, May 5th at the Petaluma Community Center. He commented on a presentation by Gregory Andrews, Fishery Program Manager at the Marin Municipal Water District (MMWD). He stated that Mr. Andrews provided information about protecting Coho salmon in the Lagunitas Creek Watershed and what activities MMWD is doing to protect and enhance that fishery.

Director Long discussed the use of solar power and expressed his hope that the District will utilize solar power generation in the future. He suggested that the Board receive a presentation/update on renewable energy use at the District.

Director Dillon-Knutson stated that she attended a gathering in the Lea Drive neighborhood recently, and commented that that there were no reports of odors from the residents in attendance.

GENERAL MANAGER'S REPORT AND ANNOUNCEMENTS:

The General Manager had the following reports and announcements:

- Reports:
  - Field Services Manager Steve Krautheim was presented with a "P.I.C.K." Award (Professionalism, Ingenuity, Contribution & Knowledge) at the CWEA Annual Conference Committee lunch. This award recognizes service to CWEA and the Collections System Committee for its goal of training.
  - For the sixth year in a row, the District has been awarded the Certificate of Achievement for Excellence in Financial Reporting by the Government Finance Officers Association (GFOA) for its 2015-2016 Comprehensive Annual Financial Report (CAFR).
  - The District Lab was recognized by ERA (a national independent laboratory proficiency testing entity) as a Laboratory of Excellence for achieving 100% data compliance among 1,061 participating laboratories for the third year in a row. Congratulations to Veolia staff, Environmental Services Supervisor Liz Falejczyk, and Lab Technician Kurt Hawkyard.
  - The North Bay Water Reuse Authority Draft 4th Amended MOU was received last week. Staff will review with District Counsel and present for Board direction and/or recommendation for approval at a future Board meeting.
  - The District and North Marin Water District (NMWD) jointly participated in an US EPA drought case study on April 26th. Director Long and the General Manager participated along with District, Veolia, and NMWD staffs. The EPA conducted tours of the treatment and reclamation facilities, and the General Manager and Director Long were interviewed. Upon completion of the video case-study, a presentation will be made to the Board.
  - A thank-you note was received from the Clean and Green Day Committee for the District's continued support of their annual event which took place on April 22nd in Novato.
- Announcements:
  - North Marin Water District General Manager Chris DeGabriele recently retired, and Drew McIntyre has taken the position of General Manager.

- Next Board meeting is Monday, May 22, 2017, at 5:30 p.m.

ADJOURNMENT: There being no further business to come before the Board, President Peters adjourned the meeting at 6:49 p.m.

Respectfully submitted,

____
Sandeep Karkal
Secretary

Julie Hoover, Recording

Novato Sanitary District
Operating Check Register
May 22, 2017

Date	Num	Name	Credit
May 22, 17			
05/22/2017	60647	Pacific, Gas & Electric	63,333.71
05/22/2017	60648	Shape Incorporated	20,564.64
05/22/2017	60625	American Express-21007	6,822.77
05/22/2017	60632	CDW Government, Inc.	6,521.23
05/22/2017	60639	Golden Gate Petroleum, Corp	5,441.51
05/22/2017	60642	Marin Mechanical II, Inc.	4,027.84
05/22/2017	60631	California Diesel & Power	3,098.30
05/22/2017	60636	Environmental Resource Assoc	2,734.78
05/22/2017	60635	Environmental Products and Acce...	1,940.00
05/22/2017	60640	IEDA, INC	1,143.00
05/22/2017	60626	B.W.S. Distributors, Inc.	546.29
05/22/2017	60651	Verizon Wireless-	409.30
05/22/2017	60641	International Fire Inc.	407.00
05/22/2017	60652	VWR International Inc.	310.53
05/22/2017	60630	Buckles-Smith1	284.42
05/22/2017	60633	CWEAmembers	260.00
05/22/2017	60629	BoundTree Medical, LLC	259.98
05/22/2017	60643	Medical Center of Marin	235.00
05/22/2017	60634	Department Of Consumer Affairs	230.00
05/22/2017	60637	Frontier California Inc EQ	215.55
05/22/2017	60628	Bill's of Tiburon	193.30
05/22/2017	60627	Barnett Medical LLC	180.00
05/22/2017	60638	Frontier Communications of CA	153.11
05/22/2017	60645	North Marin Water District	116.00
05/22/2017	60653	Department Of Consumer Affairs	115.00
05/22/2017	dir dep	Long, William C.	101.16
05/22/2017	60649	Staples Advantage	59.75
05/22/2017	60646	O'Reilly Auto Parts	44.98
05/22/2017	60650	Unicorn Group	30.62
05/22/2017	60644	NAPA Auto Parts	5.96
May 22, 17			**119,785.73**

Novato Sanitary District
Capital Projects Check Register
May 22, 2017

Date	Num	Name	Credit
May 22, 17			
05/22/2017	3177	W.R. Forde	116,966.85
05/22/2017	3176	Sonoma County Water Agency	7,675.00
05/22/2017	3174	DB Gaya Consulting LLC	6,152.00
05/22/2017	3175	Lateral-Calles	2,000.00
May 22, 17			**132,793.85**

Item 5.b.

Novato Sanitary District
Payroll and Payroll Related Disbursements
May - 2017

Date	Description	Amount
05/31/2017	May Payroll	114,094.31
05/31/2017	May - Retirees Health Benefits	12,550.76
05/19/2017	PARS-OPEB Contribution	63,636.36
05/19/2017	PARS-Pension Contribution	18,181.82
05/19/2017	CALPERS Retirement	10,501.48
05/19/2017	United States Treasury	24,509.48
05/19/2017	CalPers Supplemental Income Plan	4,000.00
05/19/2017	EDD	7,065.49
05/19/2017	Lincoln Financial Group 457	9,109.90
05/19/2017	Lincoln Financial Group 457 Roth	50.00
05/19/2017	Lincoln Financial Group-401a Plan	8,658.85
05/19/2017	CALPERS Retirement	13,847.01
05/19/2017	CalPERS Health	30,249.54
05/19/2017	Local Union 315	500.00
05/19/2017	Operating Engineers Trust	845.24
05/19/2017	Delta Dental	2,880.63
		320,680.87

NOVATO SANITARY DISTRICT
BOARD AGENDA ITEM SUMMARY

TITLE: Annual Budget: Cogeneration and Alternative Energy Update.	**MEETING DATE: May 22, 2017** **AGENDA ITEM NO.: 6.b.**

RECOMMENDED ACTION: Receive update cogeneration and alternative energy options and provide direction, if any.

SUMMARY AND DISCUSSION:

At its last meeting on May 8, 2017, the District Board requested an update regarding progress toward implementing a cogeneration/alternative energy project. The request is timely, as staff had planned to give the Board an update regarding cogeneration/alternative energy as part of the FY 17-18 Budget Workshop. Staff will present on the various activities and progress toward that goal over the last year.

STRATEGIC PLAN INFORMATION: This item addresses Goal 2 (Build and Maintain Facilities that are Safe, Reliable, Environmental and Efficient) and Goal 3 (Alignment and Communications) of the latest Strategic Plan Update.

DEPT. MGR.: eb	**GENERAL MANAGER:** SSK

NOVATO SANITARY DISTRICT
BOARD AGENDA ITEM SUMMARY

TITLE: Annual Budget: Lateral Grant Program Update.	**MEETING DATE: May 22, 2017** **AGENDA ITEM NO.: 6.c.**

RECOMMENDED ACTION: Receive update on Sewer Lateral Grant Program.

SUMMARY AND DISCUSSION:

The District has implemented a sewer lateral grant program since fiscal year FY2010-11. For FY2016-17, the program provided one-half of the lateral repair/replacement cost to a maximum of $2,000 in the form of a grant to a private property owner for testing and repair/replacement of their sewer lateral.

In the period from 2010-11 to 2015-16, the District budgeted $50,000 per year for this program. For 2016-17, the District budgeted $60,000 and expended (or committed for expenditure) all available funds.

Therefore, based on the District's FY16-17 experience, the preliminary FY17-18 capital budget includes an increased budget amount of $80,000, retains the maximum individual grant amount at $2,000, and includes a preliminary budget amount of $100,000 for FY18-19.

STRATEGIC PLAN INFORMATION: This item addresses Goal 1 (Operational Excellence) and Goal 3 (Alignment and Communications) of the latest Strategic Plan Update.

DEPT. MGR.: EB, SRK	**GENERAL MANAGER:** SSK

NOVATO SANITARY DISTRICT
BOARD AGENDA ITEM SUMMARY

TITLE: Annual Budget: Preliminary Capital Improvement Program (CIP) Work Plan.	**MEETING DATE: May 22, 2017** **AGENDA ITEM NO.: 6.e.**

RECOMMENDED ACTION: Receive Fiscal Year (FY) 17-19 Preliminary Capital Improvements Program (CIP) Budget - Summary of Anticipated Project Work.

SUMMARY AND DISCUSSION:

The District annually prepares a Capital Improvements Program (CIP) budget based on an anticipated level of project work. This anticipated project work is summarized in a memorandum from staff to the Board. The memorandum functions as a roadmap for the capital work, and as a tool to inform capital spending needs for the upcoming budget year.

The FY17-19 Preliminary CIP Budget – Summary of Anticipated Project Work is attached. Staff will be present at the meeting to provide overviews of the project work within their areas of responsibility or respond to any questions.

ATTACHMENTS: 1. FY17-19 Preliminary CIP Budget – Summary of Anticipated Project Work;   2. Table 1: 2017-19 Preliminary Budget, Anticipated Capital Improvement Expenditures.

STRATEGIC PLAN INFORMATION: This item addresses Goal 2 (Build Facilities that are Reliable, Environmental, and Efficient) of the latest Strategic Plan Update.

DEPT. MGR.: eb, srk	**GENERAL MANAGER:** SSK

Item 6.e.
Attachment 1
(Pages 14-20)

Novato Sanitary District

MEMORANDUM

TO: District Board of Directors

FROM: Sandeep Karkal, General Manager-Chief Engineer
Steve Krautheim, Field Services Manager
Erik Brown, Technical Services Manager

DATE: May 19, 2017

SUBJECT: FY17-19 Preliminary Capital Improvements Program (CIP) Budget – Summary of Anticipated Project Work.

Introduction

This memo presents a summary of the potential or anticipated scope of work for projects and project work included within the various Accounts of the Capital Improvements Program (CIP) budget for FY17-19.

A copy of the proposed two-year FY17-19 capital improvement expenditures is included as Table 1: 2017-19 Preliminary Budget, Anticipated Capital Improvement Expenditures.

Account No. 72403: Pump Station Rehabilitation

This ongoing, long-term account provides for replacing the District's underground-type pump stations with submersible pump-type pump stations. The lift stations that remain to be rehabilitated include the two Vintage Oaks Pump Stations and the Rowland Plaza Pump Station. The rehabilitation schedule for these pump stations will be impacted by potential development in the Hanna Ranch and Vintage Oaks area, and work is being deferred until the development plans for the area become clearer.

Therefore, construction work is not anticipated during FY17-18. However, design work on the remaining pump stations may be initiated depending on how development plans for these areas evolve, and a placeholder amount is included in the account to initiate any needed design work.

In addition to the potential design related placeholder amount, an additional budget amount is also included for the design and installation of two dry pit submersible pumps at the Rowland Plaza Pump Station to replace the existing pumps and motors, as well as an above ground control panel. This work will ensure the reliability of this pump station until further upgrades/modifications are carried out.

Account No. 72508: North Bay Water Reuse Authority

The District is a member agency of the North Bay Water Reuse Authority (NBWRA). FY17-18 will be the fourth year of the multi-year Phase 2 program, including a Feasibility Study and environmental work for currently over $75 million in recycled water projects across all NBWRA agencies for funding under the US Bureau of Reclamation Title XVI (WaterSMART) program.

In the scoping study leading into the Phase 2 feasibility work, the District had identified three projects with a total estimated cost of about $36 million. These projects have been substantially refined in the feasibility phase to Title XVI eligible projects with an estimate of about $6.5 million, primarily a second (about 2021-22) expansion of the District's Recycled Water Facility (RWF).

In addition to RWF expansion, the Phase 2 environmental work will include preliminary environmental work for a potential third (after about 2025) non-Title XVI funded RWF expansion project, with a current estimate of about $5 million. The Phase 2 environmental work will also provide programmatic (high level) environmental analyses of two recycled water storage alternatives on District owned property at the site of the existing reclamation facility, with current estimates of about $6 million and $8 million respectively.

A significant portion of the District's cost commitments towards Phase 2 have been satisfied in the prior three-year period from FY14-15 through FY16-17, and NBWRA estimates that continuing costs to the District will average about $80,000 for each of FY17-18 and FY18-19. The District's preliminary FY17-19 CIP budget includes a budget amount of $100,000 for each of these years.

Also, if the initial Title XVI eligible Phase 2 projects move into the design and construction phases, it is anticipated that grant funding from USBR would pay for up to 50% of design and construction costs for recycled water storage projects, and up to 25% of other recycled water projects (tertiary treatment, pipelines, pumping, etc.). The District would be required to come up with its share (local share) of the project costs, i.e. 50% of design and construction costs for storage projects and 75% of the design and construction costs for additional tertiary treatment facilities, etc.

Account No. 72706: Collection System Improvements

This account includes budget amounts for continuing work on rehabilitating the District's collection system. This fiscal year's project work includes:

1. The rehabilitation of about 1,850 feet of 12-inch sewer main along Redwood Blvd. between Lamont Avenue and Diablo Avenue.
2. The rehabilitation of about 950 feet of 10-inch and about 1,350 feet of 8-inch sewer main in Bel Marin Keys Blvd.
3. Continuing work associated with the Collection System Master Plan (CSMP) currently underway for the District.

4. An allowance for the potential design of a relief sewer in San Marin Drive between Simmons Lane and Campus Drive.
5. An allowance for the initial design of the Novato Boulevard Trunk Sewer between Diablo Avenue and Grant Avenue (if the City of Novato revives the Novato Boulevard street widening project).
6. An allowance for the relocation of about 700 feet of 8-inch sewer main that currently runs through an easement on the Marin Country Club's property to extend down Country Club Drive to the existing sewer on Birdie Drive.

Account No. 72706-1: Lateral Replacement Program

The District established this program as a sub-account within Account No. 72706, as part of a long-term approach to reducing infiltration and inflow from private residential laterals into the District's collection system.

The program seeks to incentivize individual homeowners financially to replace the entire sewer lateral between their residence and the sewer main, and currently provides a grant for half of the replacement cost up to $2,000 to replace a residential sewer lateral in the District's service area. In FY16-17, the District budgeted an overall budget amount of $60,000 for this program.

Based on the District's FY16-17 experience with the program, the District's share, i.e. the maximum individual grant amount will remain at $2,000 for FY2017-18, but the overall budget for the program will increase to $80,000.

As in prior years, the District will continue to monitor and modulate the maximum individual grant and budget amounts on a yearly basis, based on its ongoing experience, and its goal of incentivizing lateral replacement.

Account No. 72707: Hamilton Wetlands/Outfall Integration

Previously, the District cooperated with the California State Coastal Conservancy (SCC) in a study to examine alternatives for a long-term SCC project to integrate the District's outfall into the SCC's Hamilton Wetlands project.

As noted in prior years, the SCC's goal for their project is to utilize the District's effluent as a reliable, long-term fresh water source to establish and maintain a brackish marsh habitat at the SCC's Wetlands project.

While all funding to implement this project will be provided by the SCC, this account will continue to retain a "placeholder" status with nominal budget amounts in FY17-19 to meet any minor or unanticipated District expenses for coordination work with SCC staff.

Account No. 72708: Cogeneration

This account will fund the design and construction of a cogeneration project that will utilize digester gas produced in the anaerobic digestion process to produce power that may result in an offset to the District's utility power purchases.

The District will also pursue grant-funding opportunities for these projects, and the FY17-18 budget includes funds for initial engineering studies and design, potential California Environmental Quality Act (CEQA) related work, and assistance with securing grant funding.

Also, the budgeted amounts do not include any potential grants that may be received through programs such as the Clean Water State Revolving Fund Green Project Reserve (GPR), or rebates through the California Public Utility Commission's Self Generation Incentive Program (SGIP).

Account No. 72802: Annual Sewer Adjustment for City Projects

The budget in this account is established annually to compensate the City of Novato or County of Marin for work performed on District facilities through City or County Capital Improvement Projects.

An example of work funded through this account would be a City or County street paving or repaving project, when District manholes are raised to grade.

Account No. 72803: Annual Collection System Repairs

This account is established annually primarily to fund smaller projects to repair District collection system facilities, primarily point and spot repairs, or to replace short reaches of sewer main(s).

The Collection system staff generates the repair list during routine maintenance activities including sewer cleaning and CCTV work. The Field Services Manager then tracks and prioritizes repair projects in conjunction with the Collection System Superintendent, the Technical Services Manager, and the Construction Inspector.

Account 72804: Annual Reclamation Facilities Improvements

The budget in this account is established annually to fund small projects to repair District facilities at the Reclamation Area.

The work typically includes irrigation system repairs for lines larger than 4” in diameter, parcel rehabilitation work, and other miscellaneous repairs. Also included in the budget for this year is the removal of fallen eucalyptus trees and fence repairs.

Account No. 72805: Annual Treatment Plant Improvements

This budget account is established to fund small projects to repair District treatment related facilities at the Novato Treatment Plant.

This account is anticipated to fund minor mechanical & electrical work, water line repairs, pavement repairs, painting, and any other small repairs or improvements.

An allowance is also made this fiscal year for work associated with the cleaning of Digester No. 1.

Account No. 72806: Annual Pump Station Improvements

This budget account was established to fund small projects to repair District pumping facilities at the various pump stations throughout the District.

This account is anticipated to fund minor mechanical & electrical work, water line repairs, pavement repairs, painting, and any other small repairs or improvements at District pump stations.

Account No. 72807: Annual Ignacio Facility Improvements

This budget account is newly established this year to fund small projects to maintain the Ignacio facility (ex the Ignacio Transfer Pump Station), or perform demolition/site clean-up work related to the some of the abandoned treatment units of the decommissioned Ignacio Treatment Plant (ITP).

Account No. 72808: Strategic Plan Update:

The District's Strategic Plan document was most recently updated in 2016. While no specific updates have been identified or are expected for FY17-18, this account is established to serve as a "placeholder" account if the need to make any potential updates to the District's Strategic Plan document arise during the fiscal year.

Account No. 72809: Novato Creek Watershed

This account and its budget was established as a result of an agreement with the Marin County Flood Control District.

Under this agreement, the District participates in a program with the County of Marin, the City of Novato, and the North Marin Water District to explore alternatives to reduce flooding potential in the lower Novato Creek portion where all of these agencies have facilities that are prone to flood damage.

The budgeted amounts are a minimal amount and function as a "placeholder", or to meet minimal District commitments to potential, previously unidentified studies, through FY18-19. Future work (FY18-19 and beyond) arising out of these studies may require increased funding, but potential costs are unknown at this point.

Account No. 73003: Administration Building Upgrades/Maintenance Building

This account includes allowances for minor improvements to the Administration Building and work associated with providing a new temporary Maintenance Building.

Paving of the abandoned aeration basins demolition site and installing utilities to service a temporary modular maintenance building was completed in FY 16-17. Additionally, procurement documents for the new modular maintenance building were produced.

Budgeted FY17-18 funds include procurement and placement of a temporary modular maintenance building and appurtenances.

Account No. 73004: Odor and Landscaping Improvements

This account budgets further work by District and operations staff and the District's Odor Specialist consultant(s) to address and manage any odor issues raised by the District's neighbors. It also includes an allowance to address any landscaping items.

Installation of a new sodium hypochlorite tank and appurtenances at Ignacio Transfer Pump Station was completed in FY16-17.

Account No. 73005: RWF Expansion

This account will fund the design and construction of an incremental capacity expansion to the existing Recycled Water Facility (RWF) at the Novato Treatment Plant site. This first expansion is necessitated by the planned expansion by the North Marin Water District (NMWD) of its Central Area Project, which will push NMWD's recycled water distribution pipelines into the Central Novato/Ignacio geographic areas.

The budgeted amounts do not include any potential grants that may be received through State Proposition 84 (Integrated Regional Water Management or IRWM) or Proposition 1 (State Water Bond) funds, or through the US Bureau of Reclamation (USBR) Title XVI (WaterSMART) program.

The project was originally planned to bid for construction in 2016-17, and budgeted accordingly in the FY16-17 budget, and the design of this first expansion was completed in FY 16-17. However, upon reviewing the construction bid climate with other agencies, and in consultation with its consultant, the District was advised that it might be more prudent to delay advertisement, bidding, and award of the project until late summer/early fall 2017 to benefit from a potentially more favorable bid environment. Therefore, at this time, the FY 17-18 budget includes funds for the construction of the expansion project, construction/project management and SCADA programming.

Account No. 73006: NTP Corrosion Control

This account includes funds for corrosion control projects at the Novato Treatment Plant site. As the recently constructed facilities age, the effects of the aggressive nature of wastewater corrosion start to appear and need to be addressed.

It is anticipated that this account will see budgeting of funds on an ongoing basis. The budgeted funds for FY17-18 will focus on addressing corrosion issues at Headworks Channels and Effluent Box. Coating of Primary Clarifier No. 1 mechanism was completed in FY 16-17.

Account No. 73090: Vehicle Replacement

This account includes a budget amount for the purchase of a hydro-flusher truck, the replacement of the CCTV van, and a 40kw portable generator. Replacement of an additional light truck is anticipated in FY 18-19.

Also, staff has been working on the purchase of the hydro-flusher truck in FY16-17 (see Board Agenda Item No. 9.a., Board meeting of May 22, 2017). Depending on the timing of the purchase of the hydro-flusher truck and its payment, (the truck has a lead-time of approximately 20 weeks), the funds for FY17-18 and FY18-19 may be adjusted in the final FY17-18 budget.

****

Item 6.e.
Attachment 2

Novato Sanitary District

Table 1: 2017-19 Preliminary Budget

Anticipated Capital Improvement Expenditures

Capital Improvements Cost Centers - 72000 & 73000	Budget 15/16	Budget 16/17	Expenditures thru March 2017	Projected Exp 2016-17	Previous Preliminary Budget 2017-18	CY Preliminary Budget 2017-18	Preliminary Budget 2018-19
Accounts							
72403 · Pump Station Rehabilitation	50,000	50,000	0	0	250,000	150,000	250,000
72508 · North Bay Water Reuse Authority (NBWRA)	403,000	440,000	207,344	207,344	100,000	100,000	100,000
72706 · Collection System Improvments	1,050,000	1,200,000	810,573	1,000,000	1,700,000	1,700,000	1,700,000
72706-1 · Lateral Replacement Program	50,000	60,000	40,500	60,000	75,000	80,000	100,000
72707 · Hamilton Wetlands/Outfall Integration	22,500	10,000	0	2,000	10,000	10,000	10,000
72708 · Cogeneration	20,000	45,000	20,230	45,000	20,000	350,000	700,000
72802 · Annual Sewer Adj. for City Proj	10,000	10,000	0	10,000	10,000	40,000	20,000
72803 · Annual Collection Sys Repairs	200,000	200,000	37,543	50,000	200,000	200,000	225,000
72804 · Annual Reclamation Fac Improvements	100,000	100,000	52,356	100,000	100,000	175,000	100,000
72805 · Annual Treatment Plant Improvements	300,000	100,000	49,338	80,000	100,000	300,000	100,000
72806 · Annual Pump Station Improvements	0	100,000	47,084	70,000	100,000	100,000	140,000
72807 · Annual Ignacio Facility Improvements	0	0	0	0	0	50,000	50,000
72808 · Strategic Plan Update	10,000	20,000	0	0	20,000	20,000	20,000
72809 · Novato Creek Watershed	15,000	10,000	0	0	10,000	5,000	5,000
73003 · Admin Building Upgrade/Maint. Building	740,000	350,000	20,786	35,000	50,000	350,000	50,000
73004 · Odor Control and NTP Landscaping	50,000	75,000	46,316	60,000	50,000	50,000	50,000
73005 · RWF Expansion (1)	150,000	1,300,000	144,819	200,000	20,000	1,460,000	50,000
73006 · NTP Corrosion Control	150,000	180,000	14,247	160,000	150,000	150,000	150,000
73090 · Vehicle Replacement	25,000	425,000	0	30,000	25,000	390,000	25,000
Subtotal before Debt Service	**3,345,500**	**4,675,000**	**1,491,136**	**2,109,344**	**2,990,000**	**5,680,000**	**3,845,000**
78500 · Interest - SRF Loan	1,698,525	1,610,195	1,610,195	1,610,195	1,519,744	1,519,744	1,427,123
78500 · Principal - SRF Loan	3,680,431	3,768,762	3,768,762	3,768,762	3,859,212	3,859,212	3,951,833
78500 · Interest - COP Bond	811,148	775,748	775,748	775,748	739,548	739,548	702,548
78500 · Principal - COP Bond	885,000	905,000	905,000	905,000	925,000	925,000	945,000
Subtotal for Debt Service	**7,075,104**	**7,059,705**	**7,059,705**	**7,059,705**	**7,043,504**	**7,043,504**	**7,026,504**
Totals	**10,420,604**	**11,734,705**	**8,550,841**	**9,169,049**	**10,033,504**	**12,723,504**	**10,871,504**
Comments:	^	^	^		^	^	^

(1) FY17-18 expenditures include provisions for USBR Ttitle XVI grant funds through the NBWRA Phase I program, and potential reimbursement from the joint NMWD/NSD Recycled Water Capital Replacement and Expansion Fund.

NOVATO SANITARY DISTRICT
BOARD AGENDA ITEM SUMMARY

TITLE: Annual Budget: Sewer Service Charges - Set Public Hearing	**MEETING DATE: May 22, 2017** **AGENDA ITEMS NO.: 6.f.**

RECOMMENDED ACTION: Set date of June 26, 2017 for a public hearing on individual sewer service charges, and adoption of resolution confirming report on sewer service charges and collection on county tax rolls.

SUMMARY AND DISCUSSION:

Each year the District must hold a public hearing in order to determine individual rates and collect the sewer service charges on the tax rolls. This is separate from the Proposition 218 hearing that is held prior to making changes to the rates.

As a reminder, after completing the appropriate Proposition 218 requirements, the District Board, at its meeting of June 13, 2016, held a public hearing on, and thereafter adopted, Ordinance No. 120 – "An Ordinance of the Novato Sanitary District Establishing Sewer Service Charges for Fiscal Years 2016-17, 2017-18, 2018-19, 2019-20, and 2020-21".

At this time, it is necessary to determine the individual customer rates for fiscal year (FY)17-18 prior to the proposed June 26, 2017 hearing, so that District staff has time to calculate the rates for each customer. District staff will have a computerized database available at the meeting of June 26th so that anyone may request to know what their individual rate will be in the coming year and have an opportunity to protest their individual rate.

The public hearing will be "noticed" twice in the Marin IJ. Following the public hearing, the Board will consider adoption of a resolution to collect the sewer service charges on the county tax rolls. Similar to previous years, the content of the resolution will be as specified by the County of Marin, which collects the District's sewer service charges for the District on the county tax rolls.

ATTACHMENTS: 1. Draft Notice of Public Hearing Notice – Sewer Service Charges 2017-18.

STRATEGIC PLAN INFORMATION: This item addresses Goal 4 (Well Planned Finances with a Long Range Outlook), Goal 1 (Operational Excellence), and Goal 3 (Alignment and Communications) of the latest Strategic Plan Update.

DEPT. MGR.: ssk	**GENERAL MANAGER:** SSK

NOVATO SANITARY DISTRICT

NOTICE OF PUBLIC HEARING

SEWER SERVICE CHARGES 2017-18

NOTICE IS HEREBY GIVEN that pursuant to Section 5474 et seq. of the Health and Safety Code of the State of California, the Board of Directors of the NOVATO SANITARY DISTRICT has, by ordinance, adopted its sewer service charges through fiscal year 2020-21 and stated its intent to collect its charges on the tax roll in the same manner as its general taxes. The NOVATO SANITARY DISTRICT has caused to be filed with its Secretary a written report containing a description of each parcel of real property receiving sanitary sewerage service from said District and the anticipated amount of charges for each such parcel.

NOTICE IS FURTHER GIVEN that on Monday, the 26th day of June, 2017, at the hour of 5:30 p.m. at the regular meeting place of the District, Novato Sanitary District, 500 Davidson Street, Novato, California, said Board will hear and consider all protests and objections to said report.

By order of the Board of Directors of the Novato Sanitary District.

Dated: May 23, 2017

Sandeep Karkal
Secretary, Novato Sanitary District

Publish: June 12 and June 19, 2017

NOVATO SANITARY DISTRICT
BOARD AGENDA ITEM SUMMARY

TITLE: Staff Report: Comprehensive Annual Financial Report (CAFR).	**MEETING DATE: May 22, 2017** **AGENDA ITEM NO.: 7.a.**

RECOMMENDED ACTION: Receive report on Comprehensive Annual Financial Report (CAFR) Award.

SUMMARY AND DISCUSSION:

The District submitted its Comprehensive Annual Financial Report (CAFR) for Fiscal Year ended June 30, 2016 to the Government Finance Officers Association (GFOA) of the United States and Canada for review against the qualification requirements for a Certificate of Achievement for Excellence in Financial Reporting. The Certificate is the highest form of recognition in the area of government accounting and financial reporting.

By letter dated April 26, 2017, GFOA awarded the Certificate of Achievement for Excellence in Financial Reporting to the District for the sixth year in a row. In addition, GFOA recognized District Finance Officer Laura Creamer as the individual primarily responsible for preparing the award winning report, and presented her an Award of Financial Reporting Achievement (AFRA). This will also be the sixth year in a row that Ms. Creamer has achieved this Award.

ATTACHMENT: 1. News Item from Marin Independent-Journal: “In Your Town for May 18, 2017 – District praised for financial reporting”.

STRATEGIC PLAN INFORMATION: This item addresses Goal 1 (Operational Excellence), Goal 3 (Alignment and Communications), and Goal 4 (Well Planned Finances with a Long Range Outlook) of the latest Strategic Plan Update.

DEPT. MGR.: lc, ssk	**GENERAL MANAGER:** SSK

Marin Independent Journal (http://www.marinij.com)

Item 7.a.
Attachment 1
(Pages 25-26)

In Your Town for May 18, 2017

Wednesday, May 17, 2017

THE COUNTY

New aide named for Supervisor Connolly

A Terra Linda community volunteer and attorney has been tapped as an aide to Supervisor Damon Connolly.

Mary Sackett will replace Chris Callaway, who moved to North Carolina. Sackett has volunteered with Legal Aid of Marin, assisting indigent people facing eviction. A longtime volunteer of the Big Brothers Big Sisters of the North Bay, Sackett was named "Big Sister of the Year" for the state in 2010. Sackett's first day with the county is May 22.

NOVATO

District praised for financial reporting

Novato Sanitary District was recently recognized for its financial reporting.

The district was awarded the Certificate of Achievement for Excellence in Financial Reporting by the Government Finance Officers Association for its 2015-2016 Comprehensive Annual Financial Report for the sixth consecutive year. Laura Creamer, the district's finance officer, was also recognized for her role in preparing the financial report.

The Government Finance Officers Association is a nonprofit professional association serving roughly 17,500 government finance professions. The group's reporting program was created in 1945 to encourage and assist state and local governments to create financial reports that support transparency and full disclosure.

High schools get state recognition

Novato and San Marin high schools were recently named 2017 California Gold Ribbon Schools by the state Department of Education.

The campuses were selected among 477 middle and high schools. Novato High School nominated Marin School of the Arts as its model project. The school has been recognized for more than 10 years as being one of the top visual and performing arts schools in the state and in the country, according to Novato Unified School District.

San Marin High School nominated its STEM programs, as well as its San Marin Art and Technical Arts program. Schools applied for the award based on a model program or practice that the school adopted, including standards-based activities, projects, strategies and practices that can be replicated by other educational groups.

SAN RAFAEL

Speaker to discuss property rights

Debbie Bacigalupi, senior editor at Technocracy News and Trends, discusses "Who is Taking Away Your Property Rights and How?" at a Marin Republican Women Federated event May 24.

Bacigalupi, a California cattle rancher, will talk water, water and property rights, dams, renewable energy, land use, agriculture and more.

The event is from 11:30 a.m.-1 p.m. at the Club Restaurant at McInnis, 350 Smith Ranch Road.

Cost is $32, which includes lunch. Reservations are required and must be made by 5 p.m. May 19.

To reserve space, email events@mrwf.org.

URL: http://www.marinij.com/general-news/20170517/in-your-town-for-may-18-2017

NOVATO SANITARY DISTRICT
BOARD AGENDA ITEM SUMMARY

TITLE: Grand Jury Report: "Marin's Retirement Health Care Benefits – The Money Still Isn't There".	**MEETING DATE: May 22, 2017** **AGENDA ITEM NO.: 8.a.**

RECOMMENDED ACTION: Receive 2016-17 Marin County Civil Grand Jury report titled "Marin's Retirement Health Care Benefits – The Money Still Isn't There", dated May 17, 2017, and authorize staff and District Counsel to prepare a draft response for Board consideration.

SUMMARY AND DISCUSSION:

The 2016-17 Marin County Civil Grand Jury has issued a second report titled "Marin's Retirement Health Care Benefits – The Money Still Isn't There", dated May 17, 2017. A copy of the report is attached (Attachment 1).

The Grand Jury is requesting that the District respond to Recommendations R1 - R9 of the report, and do so consistent with the attached Response Form (Attachment 2).

It is recommended that the Board authorize Staff and District Counsel to review the report and prepare a draft response for the Board's consideration at a future Board meeting. The Grand Jury typically requires a response within 90 days from the report's release date, and has indicated that the District's response is due by August 17, 2017 (see Attachment 2).

ATTACHMENTS: 1. 2016-17 Marin County Civil Grand Jury report titled "Marin's Retirement Health Care Benefits – The Money Still Isn't There", dated May 17, 2017.

2. Grand Jury Response Form - Marin's Retirement Health Care Benefits Response Form.

STRATEGIC PLAN INFORMATION: This item addresses Goal 1 (Operational Excellence), and Goal 3 (Alignment and Communications), of the latest Strategic Plan Update.

DEPT. MGR.: ssk	**GENERAL MANAGER:** SSK

2016–2017 MARIN COUNTY CIVIL GRAND JURY

Marin's Retirement Health Care Benefits

The Money Still Isn't There

Report Date: May 10, 2017

Public Release Date: May 17, 2017

COUNTY OF MARIN

Marin's Retirement Health Care Benefits
The Money Still Isn't There

SUMMARY

Four years ago, the Grand Jury released a report titled *Marin's Retirement Health Care Benefits: The Money Isn't There*,[1] that discussed the funding of public agency liabilities for retiree health benefits. They discovered that most agencies were neither saving adequately nor implementing best practice cost containment strategies, and warned of the consequences.

Since then, some agencies have started paying more attention to their unfunded benefit liabilities and are choosing to prepay at least a portion of their liabilities, as financial advisors recommend. However, while 16 of the 39 agencies we studied in this report collectively *decreased* their unfunded liability by $108.1 million (the County of Marin reduced its unfunded liability by $88.3 million), the remaining 23 agencies collectively *increased* their unfunded liability by $41.9 million. This problem has been escalating for years and will not be magically gone tomorrow. Left unchecked, the growing liabilities may eventually challenge agencies' fiscal health.

The Grand Jury recognizes that all agencies face day-to-day operational challenges and that retiree health liabilities are likely not top-of-mind for many agencies. Officials and board members may not be expert at interpreting financial documents nor aware of the long-term implications of retiree health liabilities for their agency's viability – but they need to be. In this report, we offer strategies to help Marin agencies deal with their Other Postemployment Benefits liability (primarily health benefits) and make it easier for the average person to understand the scope and potential effects of such liabilities on our communities.

[1] "Marin's Retirement Health Care Benefits: The Money Isn't There." *Marin County Civil Grand Jury*. 3 June 2013.

BACKGROUND

Public employees are typically granted two retirement benefits: a pension and "Other Postemployment Benefits" (OPEB) – primarily retiree health care. This report is a follow-up to previous OPEB-related Marin County Grand Jury Reports from: 2004-2005,[2] 2006-2007,[3] and 2012-2013.[4] We wanted to see how local public agencies' OPEB liabilities have changed since the 2012-2013 Report, and examine the impact of OPEB on agencies' financial health.

METHODOLOGY

The Grand Jury, in order to understand the financial and historical details of OPEB plans:

- Reviewed Marin County Civil Grand Jury OPEB-related reports and agency responses: 2004-2005, 2006-2007, and 2012-2013.
- Distributed detailed financial questionnaires (and analyzed responses) to the same public agencies surveyed in the 2012-2013 Grand Jury Report (see Appendix A: OPEB Questionnaire to Public Agencies).
- Researched OPEB legal issues.
- Reviewed OPEB-related Governmental Accounting Standards Board Statements 43, 45, 74, and 75 (GASB 43, GASB 45, GASB 74, and GASB 75) and related literature.
- Analyzed all Comprehensive Annual Financial Reports (CAFRs) and audits of public agencies since Fiscal Year 2012.
- Analyzed GASB 45 Actuarial Valuations of OPEB benefits and liabilities, prepared for public agencies.
- Watched city/town council audit and financial presentations.
- Interviewed agency staff and consultants involved with the actuarial process.
- Surveyed literature for examples and best practices of OPEB.

[2] "The Bloated Retirement Plans of Marin County, Its Cities and Towns." *Marin County Civil Grand Jury*. 9 May 2005.
[3] "Retiree Health Care Costs: I Think I'm Gonna Be Sick." *Marin County Civil Grand Jury*. 19 March 2007.
[4] "Marin's Retirement Health Care Benefits: The Money Isn't There." *Marin County Civil Grand Jury*. 3 June 2013.

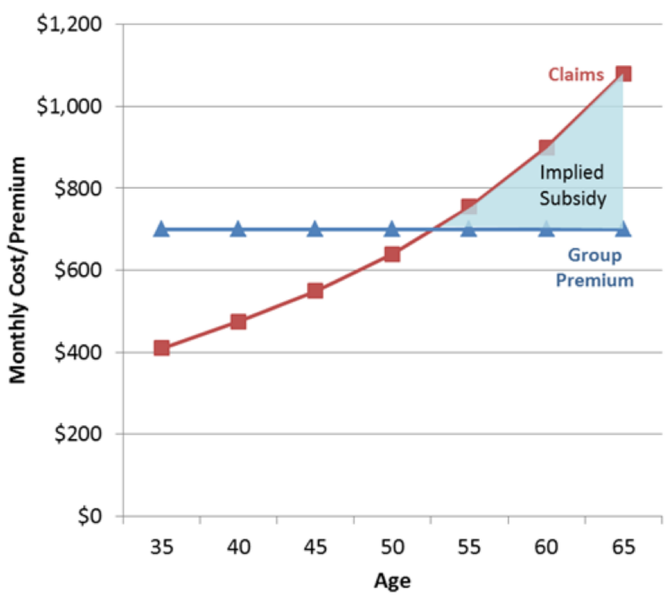
DISCUSSION

If a public agency provides an employee with *Other Postemployment Benefits* (OPEB), and the employee meets specified periods of service and age, the agency will pay these benefits upon retirement to the employee (and to his/her spouse and/or dependents under some OPEB plans). The liability for providing these benefits is determined by an *actuary* and reported in an *actuarial valuation*. In accounting terminology, such a future financial obligation is called an *Actuarial Accrued Liability* (AAL). If an agency does not annually prepay their actuarial-determined *Annual Required Contribution* (ARC), the agency creates an *Unfunded Actuarial Accrued Liability* (UAAL).

Retiree Health Care

OPEB "principally involve health care benefits, but also may include life insurance, disability, legal and other services."[5]

Health care insurance costs continue to rise. These increased costs affect both the active employees and retirees. Public agencies blend employees and retirees into a single health care plan to calculate a premium that applies to both groups. The blending causes active employees, who are statistically healthier, to pay more for their health care to defray some of the additional costs of retiree health care. The additional cost of retiree claims is called an *implied rate subsidy*. If retiree health insurance costs rise, and employees are not charged sufficient premiums, then the public agency will have increased liabilities from the implied rate subsidy shortfall.



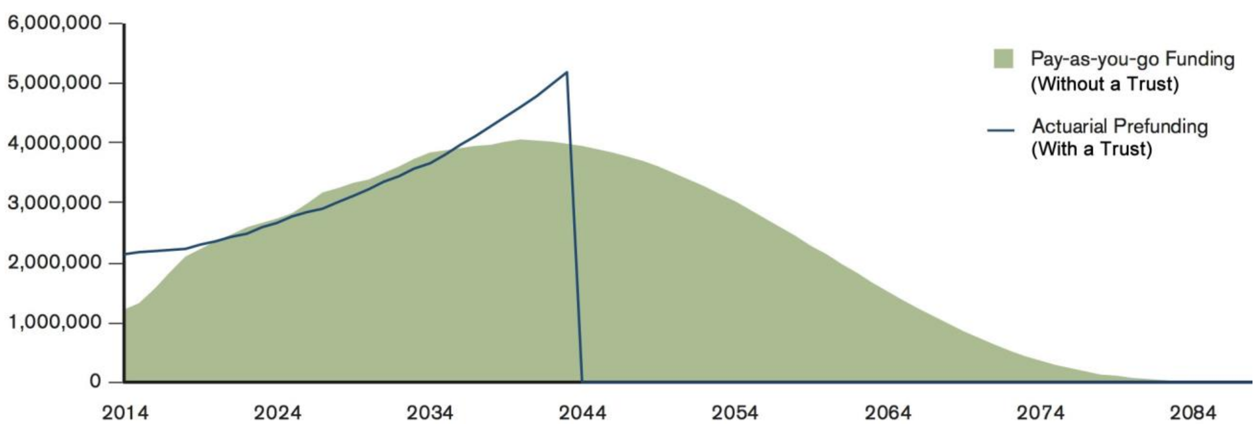
From: "Retiree Health Care: A Cost Containment How-To Guide." *League of California Cities*. Sep. 2016

[5] "Other Postemployment Benefits (OPEB)." *Governmental Accounting Standards Board*.

Prefunding vs. Pay-As-You-Go

Public agencies can choose to either prefund their Actuarial Accrued Liability (AAL) or pay the annual retiree benefits as they come due (*pay-as-you-go* or *pay-go*). Prefunding into an OPEB trust fund allows the contributions to be invested, which can further reduce both the agency's AAL and Unfunded Actuarial Accrued Liability (UAAL). While prefunding is a smart long-term strategy, it may affect an agency's ability to pay its short-term bills. That is why some agencies choose pay-go – they do not have a sufficient budget or adequate cash flow. Basic aid school districts[6] for example, depend upon local property tax distribution to cover both their short-term and long-term obligations.

Nevertheless, prefunding OPEB liabilities is a widely accepted best practice. As the Government Finance Officers Association (GFOA) states, "It is widely acknowledged that the appropriate way to attain reasonable assurance that benefits will remain sustainable is for a government to accumulate resources for future benefit payments in a systematic and disciplined manner during the active service life of the benefitting employees."[7] The following graph shows a hypothetical example of the annual cost for an agency's OPEB payments[8] for a closed group (no new employees) and illustrates how prefunding could be less expensive than pay-go, using 7.25% as the assumed rate of return on investments:



	WITHOUT A TRUST	WITH A TRUST
Employer payments	$160,000,000	$98,000,000
Investment income (7.25%)	0	62,000,000
Total cost of benefits	**160,000,000**	**160,000,000**

[6] Weston, Margaret. "Basic Aid School Districts." *Public Policy Institute of California*. September 2013.
[7] "Sustainable Funding Practices for Defined Benefit Pensions and Other Postemployment Benefits (OPEB)." *Government Finance Officers Association*. January 2016.
[8] "Establishing an OPEB trust fund." *Milliman, Inc*. 2014.

The Actuarial Valuation Process

Actuaries prepare their valuations using Actuarial Standards of Practice and applicable standards of the Governmental Accounting Standards Board (GASB). The accounting standards are issued as implementation guides. During the 2012-2016 time period, actuaries followed the GASB 45[9] implementation. The purposes of a GASB 45 actuarial valuation include:

- Informing an agency of its retiree benefits' financial future obligations,
- Determining how much an agency should consistently prefund to ensure there will be sufficient funding for the retirees' benefits, and
- Determining and measuring the funded status and funding progress of an OPEB plan.

The agency initiates the actuarial valuation process by providing basic data to the actuarial consultant, including:

- **Agency overview**: agency directions and intentions for the valuation.
- **Valuation data**: employee data, updates to health & welfare benefits and/or Memorandums of Understanding (MOUs), new resolutions about agency contributions, plan summaries and rates, and retiree benefits and other contributions paid recently.
- **Assumptions**: rates of retirement, termination, disability, mortality, prefunding, and discount rates.

Within a few months, the actuary arrives at a draft actuarial valuation report. The draft is shared with the finance or budget director, who can correct misunderstandings or misinterpretations. The final (GASB 45) valuation report is then used in the preparation of annual Comprehensive Annual Financial Reports (CAFRs) (See Appendix B: Example Actuarial Valuation Certification.) For agencies that have 200 or more employees, GASB 45 requires actuarial valuations at least biennially, and for smaller agencies at least triennially.

[9] "Statement No. 45 of the Governmental Accounting Standards Board: Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions." *Governmental Accounting Standards Board*. June 2004.

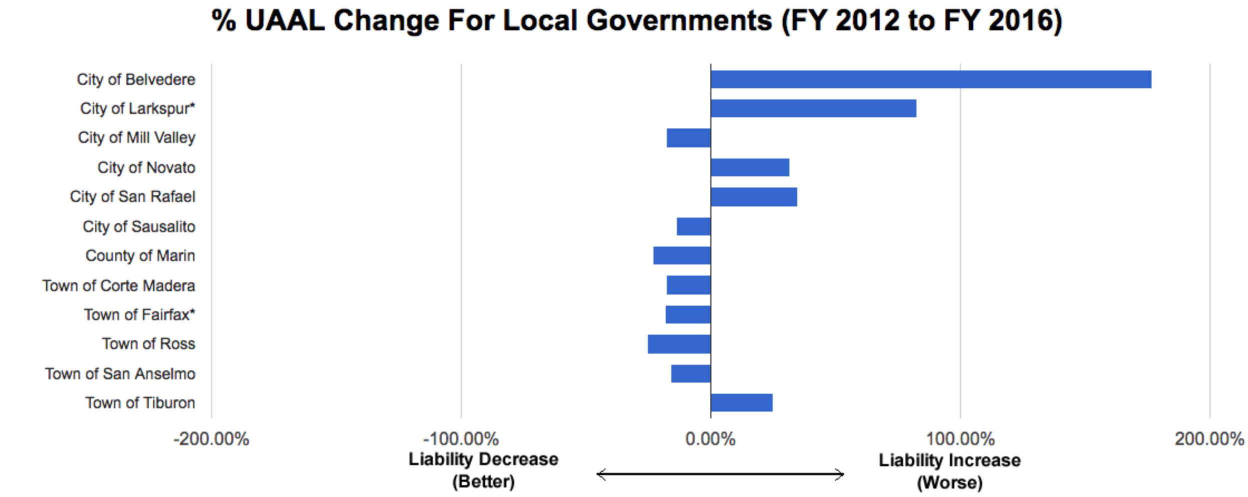
What Has Changed Since the 2012-2013 Report?

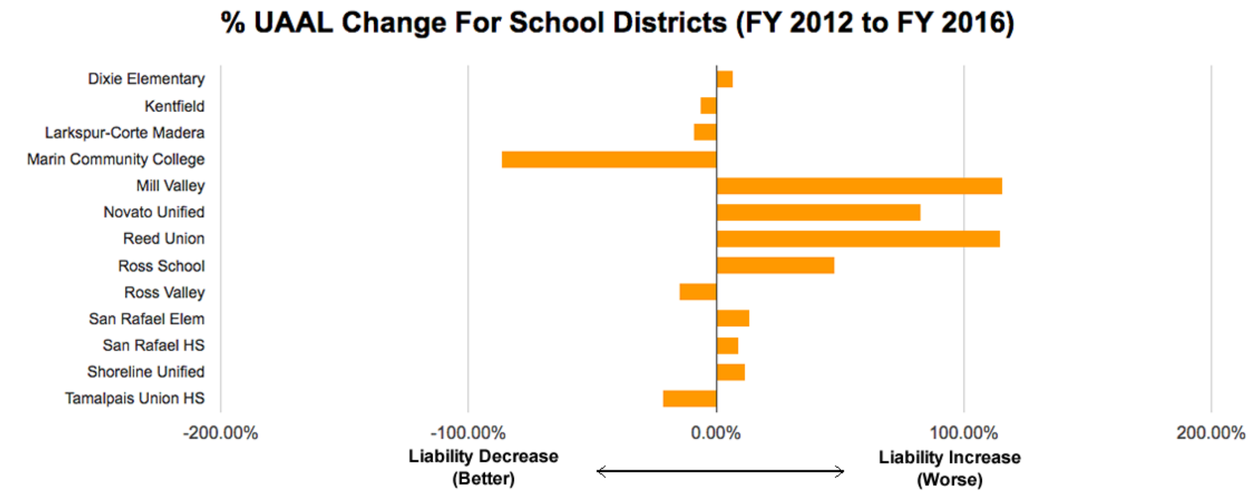
In the 2012-2013 report "Marin's Retirement Health Care Benefits: *The Money Isn't There,*"[10] the 2012-2013 Marin County Grand Jury reviewed the OPEB funding status of 40 local government agencies. Since one agency (Sewerage Agency of Southern Marin) responded that it was staffed by City of Mill Valley employees, only 39 agencies were examined. This year's Grand Jury compared the financial information published in agencies' Audits and Comprehensive Annual Financial Reports (CAFRs) for Fiscal Year 2012 (FY 2012) and FY 2016. (For an example of locating OPEB financial data, please see Appendix C: Finding Key OPEB Information in CAFRs or Audits.) By this comparison, the Grand Jury discovered:

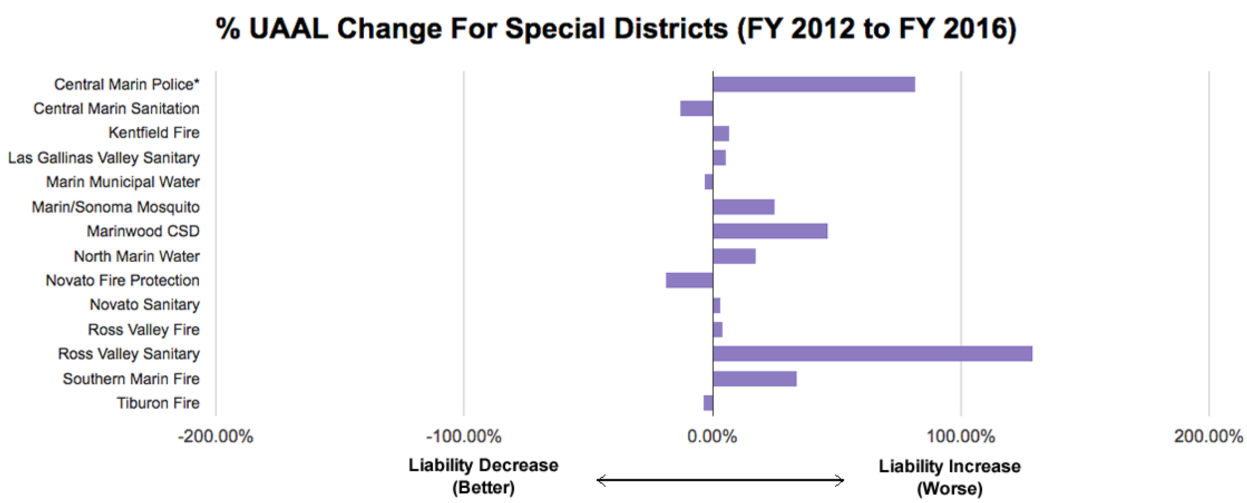
OPEB Highlights	FY2012	FY 2016
# of agencies that funded over 5% of their liability	11	18
# of agencies that funded between 1-5% of their liability	2	0
# of agencies that had not funded any of their liability	26	21
Collective 39-agency liability (AAL)	$630.7 Million	$650.2 Million
Collectively set aside (OPEB plan assets)	$24.6 Million	$110.2 Million
Collective Unfunded Actuarial Accrued Liability (UAAL)	$606.1 Million	$540.0 Million
Collective Unfunded Actuarial Accrued Liability (UAAL) excluding County of Marin	$223.4 Million	$245.7 Million

Because agencies have very different budgets, we chose to compare liabilities as the percentage Unfunded Actuarial Accrued Liability (UAAL) change from Fiscal Year FY 2012 to FY 2016. As of April 19, 2017, the City of Larkspur, the Town of Fairfax, and the Central Marin Police Authority had not released their FY 2016 CAFRs. For those agencies, we therefore needed to use their "older" FY 2015 financial data and applicable GASB 45 actuarial valuation data instead. Those agencies are indicated with an asterisk [*] following their names throughout this report.

[10] "Marin's Retirement Health Care Benefits: The Money Isn't There." *Marin County Civil Grand Jury.* 22 May 2013.







By reviewing agencies' published financial documents, we were able to prove that the agencies reduced their unfunded liability by a combination of actions:

- **Fully contributing their Annual Required Contribution (ARC) and establishing an investment account**. By keeping up-to-date with actuarial payments, future financial obligations are kept in check.

- **Setting aside "substantial assets" for OPEB liability**. Putting aside more money into a trust account for future OPEB benefits reduces the unfunded liability.

Since FY 2012, the overall unfunded liability of $606.1 million (UAAL) was *reduced* to $540.0 million. However, for agencies that have *increased* their UAAL, we found two basic causes:

- **Underfunding the Annual Required Contribution (ARC).** Agencies that opt to use pay-go and not completely fund their ARC, compound their UAAL each year (i.e., it grows).

- **Not Reporting Implied Rate Subsidies.** As described previously, the implied rate subsidy effectively requires public agencies to calculate an implied liability whenever their retirees participate in group medical plans, but pay the same premiums as active employees. Effective March 31, 2015, all actuarial valuations must include the implicit subsidy liability.[11]

The Liability Fear

Newspapers regularly cover the looming *unfunded* pension crisis across America. Where will the money come from to pay the retirees' pension? Less commonly reported is the looming *unfunded* OPEB crisis. "The logic has been that the OPEB funding problem is 25 years old, so it can wait another year or two — even though procrastinating simply makes the liabilities mushroom … The problem of zero-funded OPEB plans is often ignored."[12] In Marin County, for the 39 agencies we studied, the unfunded pension liability is $956.3 Million and the unfunded OPEB liability (UAAL) is $540.0 Million.

Agencies need to look at their future budgets to decide if they will be able to pay an increasingly larger UAAL obligation. If they can, then the unfunded liability is simply an anticipated expense. If they cannot, then the unfunded liability is a much more urgent issue. To give some insight into the agency's potential challenge paying off its UAAL obligation, we compared each agency's most recent Annual Required Contribution (ARC) with its most recent total revenue. See Appendices D (municipalities), E (school districts), and F (special districts) for details.

If an agency does not plan sufficiently for paying their OPEB liability, citizens may be asked to make hard choices:

- **Agencies may try to find the money**. Agencies may reduce services ("crowd-out"), increase fees, attempt to raise taxes or issue bonds (with voter approval). If an agency proposes new taxes or bonds which may be used to reduce OPEB debt, the Grand Jury

[11] "Actuarial Standard of Practice No. 6." *Actuarial Standards Board*. May 2014.
[12] Miller, Girard and Link, Jim. '"New Normal" Retirement Plan Designs.' *Government Finance Review. Aug. 2009.*

believes it should fully disclose that purpose, and not use language that is "virtually impenetrable, written by lawyers for lawyers who are also accountants."[13]

- **Retiree benefits may be reduced**. "However, unlike pensions, OPEBs are typically not guaranteed or protected by state law. State and local governments have much more latitude to scale back OPEBs and share OPEB-related costs with retirees. Many have implemented several changes to that effect."[14]

Approaching Cost Containment

Over the years, many organizations have investigated reducing OPEB liabilities through cost containment strategies. Because of legal and political issues, these strategies may not be appropriate for every public agency. Rather than limit agencies to specific strategies, the Grand Jury wants to ensure that decision makers in the agencies are aware of the breadth and depth of these options to better inform any future liability-reducing actions.

In 2006, Governor Schwarzenegger established the *Public Employee Post-Employment Benefits Commission*[15] to identify the extent of unfunded OPEB liabilities and evaluate approaches for addressing the liabilities. The 34 recommendations contained in the Commission's final report addressed both pension and OPEB funding. While some of these recommendations are now legally required or obsolete, the Grand Jury believes two recommendations are still warranted today:

- ✓ **Public agencies providing OPEB benefits should adopt prefunding as their policy**. As a policy, prefunding OPEB benefits is just as important as prefunding pensions. The ultimate goal of a prefunding policy should be to achieve full funding.
- ✓ **Any employer considering the use of OPEB bonds should fully understand, and make public, the potential risks they bring**. Such risks include: shifting costs to future generations and converting a future estimated OPEB liability into fixed indebtedness.

In 2015, Smart Business Magazine highlighted cost containment strategies[16] for company employee benefits, including:

- ✓ **Consumer-Directed Health Plans (CDHPs)**. Combines a high-deductible plan with a health savings account.
- ✓ **Adding Voluntary Benefits**. Employees can add benefits as-needed with pre-tax dollars.
- ✓ **Self-Funding the Health Plan.** Employers directly pay for health care claims, and reduce their financial risk by purchasing stop loss insurance from an insurance carrier.

[13] Herhold, Scott. "How ballot questions for bonds mislead voters." *The Mercury News*. 22 Aug. 2016.
[14] "Effective Advocacy & Key City Issues." *League of California Cities*. 20 Jan. 2016.
[15] "Funding Pensions & Retiree Health Care for Public Employees." *Public Employee Post-Employment Benefits Commission*. Jan. 2008.
[16] Pritts, Craig. "Benefit Renewals: Cost containment strategies that can control your health care costs." *Smart Business Pittsburgh*. Sep. 2015.

- ✓ **Expanding Wellness Programs.** Reportedly, 75% of health costs are preventable.
- ✓ **Reduce Spousal Subsidies or Add Spousal Surcharges.**

In 2016, the League of California Cities OPEB Task Force[17] listed a number of strategies that agencies could consider to reduce OPEB costs. The Grand Jury agrees that these strategies should be examined:

- ✓ **Benefit Changes for Future Employees**. Reduce benefits for new hires.
- ✓ **Benefit Changes for Existing Employees**. Reduce benefits for current employees (not retirees).
- ✓ **Change Contributions to Fixed Amounts.** Instead of paying a percentage of premiums, agencies would pay a fixed dollar amount as premiums increase.
- ✓ **Limit Duration of Retiree Medical Benefit.** Medical benefits would only extend until the retiree is eligible for Medicare.
- ✓ **Close the Benefit to New Employees**. Remove the benefit for new hires.
- ✓ **Adopt or Increase Tenure Requirements**. Require longer employment tenure before being eligible for benefits.
- ✓ **Cover Only Retirees.** Currently public agencies may cover the retiree's dependents as well.
- ✓ **Make Agency Insurance Secondary**. If the retiree has access to additional health care (from a spouse, previous employer, or veteran's program), use that primarily.
- ✓ **Eliminate Retiree Health Care for New Employees.** As pensions have become more generous, require retirees to pay for their own health care.
- ✓ **Buy Down/Buy Out Benefits**. Public agencies would pay a lump sum to reduce or eliminate their health care benefit.
- ✓ **Adjust Health Care Plans**. Changing the health care plans offered can reduce both employee and retiree health costs.
- ✓ **League Health Benefits Marketplace (Exchange).** This plan "provides cities the flexibility lacking in other group coverage medical plan designs to decouple and unbundle active employee and retiree costs, which is key to reducing OPEB liabilities."[18]
- ✓ **Audit Retiree Medical Benefits**. Ensure benefits are both compliant and not duplicative.
- ✓ **Enroll Retirees in Medicare Part A**. To the extent that some retirees are ineligible for full Medicare coverage and must pay for Medicare Part A, it may be more cost effective to pay for their enrollment in Part A.

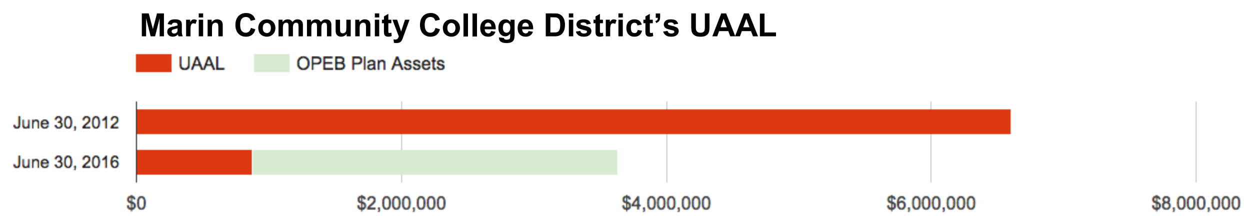
[17] "Retiree Health Care: A Cost Containment How-To Guide." *League of California Cities*. Sep. 2016
[18] "Health Benefits Marketplace." *League of California Cities*. Accessed Feb 2017.

✓ **Utilize Federally Subsidized Prescription Plan for Medicare Retirees**. As possible, use available subsidies.

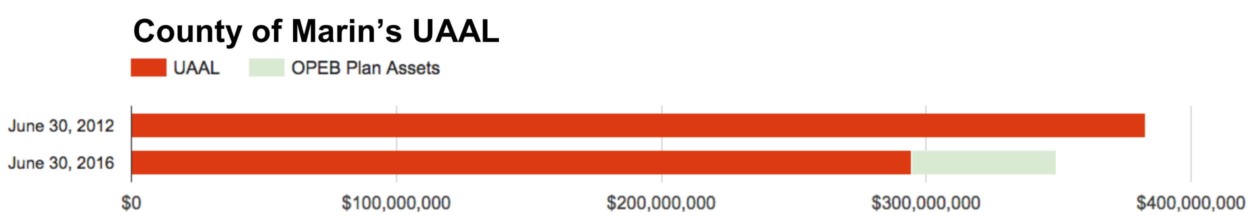
The Grand Jury recognizes that there is no one-size-fits-all acceptable solution to reduce unfunded OPEB liabilities, and that changing benefits requires a dialogue not only with agency staff but also union representatives. Therefore, we encourage agencies to clearly articulate the risk that the promised retiree benefits may not be able to be funded and to work with unions and staff to create a solution that is sustainable and fair for all parties, including the public.

Making a Dent

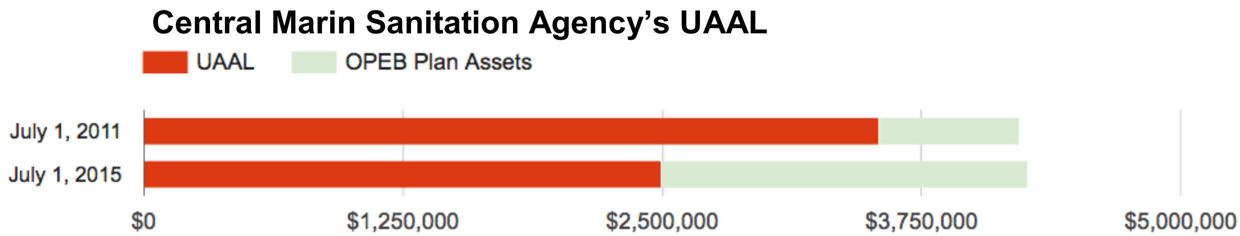
The Grand Jury found that some agencies have made notable reductions in their unfunded liability (UAAL) and are implementing best practice cost containment strategies. Their efforts are highlighted below, as reported in their financial statements and actuarial valuations. The valuation dates shown in the charts are from the agencies' actual valuation reports.



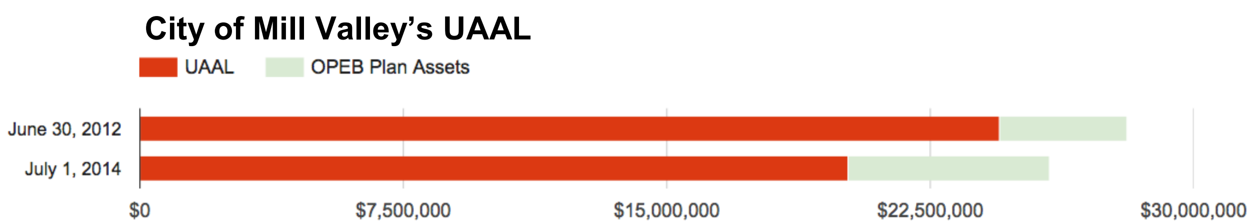
Marin Community College District ("College of Marin") decreased its UAAL by changing its OPEB funding policy. Through FY 2012, the district operated its OPEB plan solely on a pay-as-you-go basis ("pay-go"). However, during FY 2013, it established an irrevocable trust with the California Employers' Retiree Benefit Trust (CERBT) to prefund its OPEB costs through CalPERS, in addition to its regular pay-go costs.



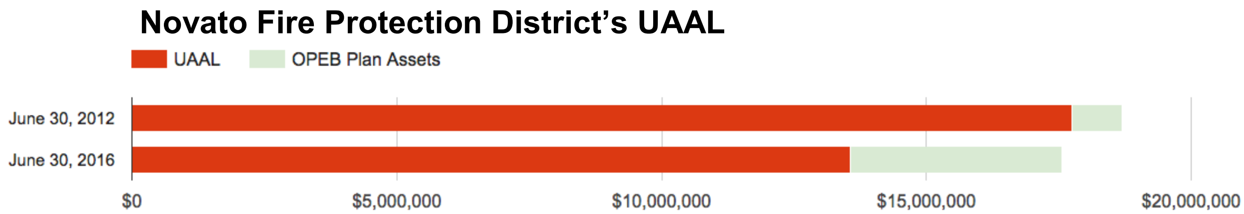
According to the CAFRs and actuarial valuations, the **County of Marin** accomplished its improvements primarily by changing its OPEB funding policy. Through FY 2012, the County was a pay-go funder but had also contributed to a reserve intended to be used to fund its OPEB plan. In February 2013, the County entered into an irrevocable trust agreement with the CERBT to prefund the County's OPEB costs through CalPERS, in addition to the regular pay-go contributions. The County transferred the reserve balance to the CERBT and began prefunding its full ARC during FY 2013. From FY 2013 through FY 2016, the County contributed 103.57% of its total ARC for that period. The most recent actuarial valuation reflects that the County also decreased its AAL by another factor within its control. It did not increase the maximum benefit for retirees eligible for its OPEB "Plan 3": retirees hired between October 1, 1993 and December 31, 2007 and those hired earlier who elect Plan 3.



Before FY 2012, the **Central Marin Sanitation Agency** (CMSA) contracted with CalPERS to administer its OPEB plan and entered into an irrevocable trust agreement with the CERBT to prefund future OPEB costs.



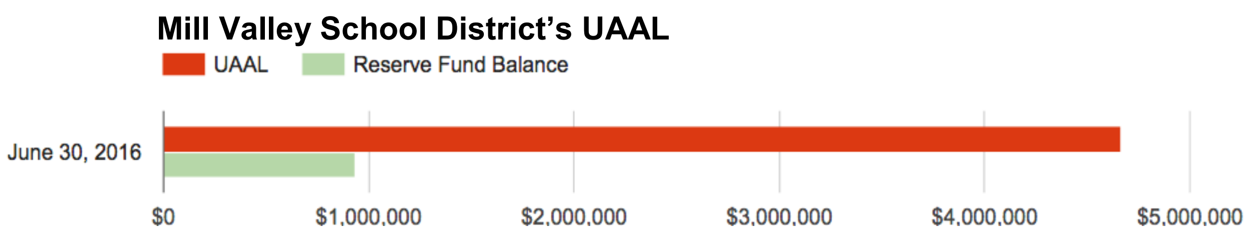
Through FY 2014, the **City of Mill Valley**'s CAFRs reflect that the City was funding its OPEB on a pay-go basis, plus some amounts to its trust account to prefund future OPEB costs. The most recent actuarial valuation noted the City's increased trust account contributions and the City's intent to consistently make total OPEB contributions greater than or equal to ARC each year. During 2013, Mill Valley implemented two OPEB cost-containment methods for new employees: (1) it increased their length of service required to be eligible for OPEB from 15 years to 20 years; and (2) it restricted any OPEB benefit to the employee only. In March 2017, the City started public discussions to eliminate OPEB benefits for American Federation of State, County and Municipal Employees (AFSCME) union members hired after January 1, 2017 and establishing a Retiree Health Savings Account, which is estimated to save $3,000/year for each employee.

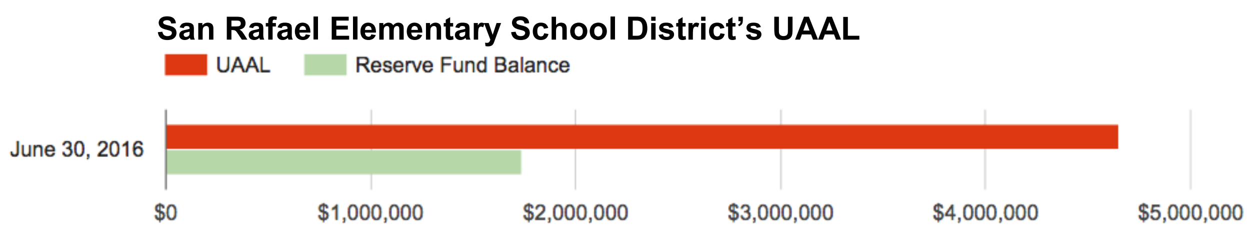


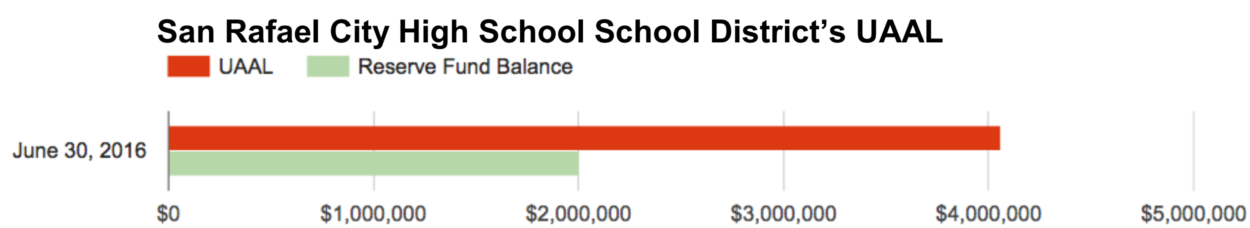
Starting in FY 2012, the **Novato Fire Protection District** (NFPD) has contributed 110.49% of its total ARC. The District implemented a cost-containment method providing that a retiree reaching age 65 must change to Medicare, pay its premiums, and has the option to select a Medicare supplement plan through the district. However, NFPD will only pay a maximum of 80% of the applicable Kaiser Medicare supplemental rate.

A Fund Which Would Make a Dent

The Grand Jury also found that at least three school districts in Marin County have established *substantial* Special Reserve Funds for OPEB:







California law authorizes these funds and many school districts throughout the state have them. They are commonly referred to as a *Fund 20, Special Reserve Fund for Postemployment Benefits*. Such Funds may be an important step in financing future benefits, and these school districts should be commended for establishing a Fund 20. However, funds set aside for future benefits (as opposed to pay-go costs) should be considered contributions to an OPEB plan only "if the vehicle established is one that is capable of building assets that are separate from and independent of the control of the employer and legally protected from its creditors. Furthermore, the sole purpose of the assets should be to provide benefits under the plan. These conditions generally require the establishment of a legal trust."[19] The Mill Valley School District should also be commended for establishing a trust with CERBT. Yet, if a school district deposits its Fund 20 balance into a trust, the district will reduce (or further reduce) its UAAL.

GASB 75

Most Marin agencies began implementing Governmental Accounting Standards (GASB) Statement 45 for their OPEB financial reporting on July 1, 2009. Beginning July 1, 2017, agencies will switch to using GASB 75. The changes to OPEB reporting are similar to changes in the GASB reporting of net pension liability (GASB 67 and 68). It states, "Employers that participate in a defined benefit pension plan administered as a trust or equivalent arrangement are required to record the net pension liability, pension expense, and deferred outflows/deferred inflows of resources related to pensions in their financial statements as part of their financial position."[20] These changes have increased financial scrutiny, and triggered public agencies across the United States to make changes to their pension funding strategies.[21] The primary objective of GASB 75 is to improve governmental accounting and financial reporting for OPEB, by improving the consistency, comparability and transparency of the information reported.[22] The new reporting standards will cause actuaries to change how they prepare their OPEB valuations and cause agencies to change their financial reporting. (See Appendix G: GASB 45 vs. 75 Overview for more details.) Three important changes are GASB 75's requirements for *biennial actuarial valuations*, *balance sheet liability reporting*, and *single blended discount rate*.

Biennial Actuarial Valuations. GASB 75 requires all agencies to obtain OPEB actuarial valuations biennially. In contrast, GASB 45 allowed agencies having fewer than 200 OPEB plan members to obtain such valuations triennially. This change affects several Marin agencies.

Balance Sheet Liability Reporting. GASB 75 requires agencies to report their Net OPEB Liability (NOL) for agencies with an OPEB trust, or Total OPEB Liability (TOL) for agencies that do not have an OPEB trust, *upfront* on the face of their balance sheets. NOL and TOL are the equivalent of UAAL and AAL under GASB 45 with some technical differences. GASB 75 also requires disclosure of how and why OPEB liability changed from year to year.

Single Blended Discount Rate. The *discount rate* is the rate used to discount future benefit payments (i.e. actuarial accrued liability) to a present value. A lower rate *increases* that liability, and a higher rate *decreases* that liability. Both GASB 45 and GASB 75 permit having higher long-term discount rates with full prefunding over the amortization period and plan assets exist.

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[19] "City of Mill Valley, Actuarial Valuation of Other Post-Employment Benefit Programs As of July 1, 2014" *Bickmore*. Aug. 2015

[20] "Notes to the Agent Multiple-Employer Defined Benefit Pension Plan GASB 68 Accounting Valuation Reports." *California Public Employees Retirement System.* 30 Jun. 2016.

[21] Farmer, Liz and Maciag, Mike. "Why Some Public Pensions Could Soon Look Much Worse." *Governing*. 17 Mar. 2015.

[22] "Summary of Statement No. 75: Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions." *Governmental Accounting Standards Board*. June 2015.

However, GASB 75 requires a single blended discount rate if the plan has some assets, but is projected to be insufficient to make benefit payments at some future point. The single rate combines the long-term rate when assets are projected to cover the payments and a municipal bond (lower) rate when assets are projected to be insufficient.

The Grand Jury also notes that actuaries determined an Annual Required Contribution (ARC) under GASB 45, while GASB 75 uses the term Actuarially Determined Contribution (ADC). However, both terms have a similar meaning. The ARC represents a target contribution required to ensure there are sufficient savings to finance and cover the promised OPEB.[23] GASB 75 similarly defines the ADC as also representing a target contribution to an OPEB plan, determined in conformity with Actuarial Standards of Practice (ASOP). ASOP No. 6, adopted in 2014, defines the ADC as a potential payment to prefund an OPEB plan, using a contribution allocation procedure that may include an amortization method.[24] The ARC method may be used for the ADC.[25]

The Grand Jury believes that GASB 75 will cause a local public agency's financial situation to look much worse. The agency "should expect a larger total OPEB liability because the single blended rate calculated under [GASB] 75 is likely to be lower than the discount rate under existing standards."[26] "The recognition of the Net OPEB Liability in the employer's financial statements will likely be a significant increase in the amount of liability that was reported under prior GASB standards."[27] This change will likely increase scrutiny of the agencies' balance sheet OPEB obligations, and force agencies to focus on addressing these liabilities. For example, the previous section ("Making a Dent") shows that agencies following full prefunding policies with plan assets achieve the goal of reducing their unfunded OPEB liabilities. Under GASB 75, an agency can reach that goal with a prefunding policy and practice supporting a projection that plan assets will be sufficient to make *all* projected benefit payments.

"It's Hard to Wrap Your Head Around This!"

– Marin County Elected Official

"One of the most important responsibilities a local elected official has is oversight of the agency's spending."[28] However, understanding the ins-and-outs of financial and actuarial standards imposed on public agencies is not easy, as evidenced by the (above) official's exclamation. Even if an elected official has business financial expertise, the standards that guide public agencies differ significantly. If an elected official has trouble understanding these

[23] "Guide to Implementation of GASB Statements 43 and 45 on Other Postemployment Benefits." *Governmental Accounting Standards Board*. 2005.
[24] "Actuarial Standard of Practice No. 6." *Actuarial Standards Board*. May 2014.
[25] "GASB Approves New OPEB Employer Accounting Standard (No. 75)." *Bartel Associates*. July 2015.
[26] McAllister, Brian and Spinellli, Connie and Belger, Diane. "Getting familiar with OPEB." *Journal of Accountancy*. 1 Aug. 2016.
[27] "GASB Issues Two Other Postemployment Benefit (OPEB) Related Exposure Drafts." *Milliman*. Aug. 2014.
[28] "Budgeting and Finance." *Institute for Local Government*. Accessed Feb. 2017.

concepts, how can the average citizen hope to understand the annual Comprehensive Annual Financial Reports (CAFRs), budgets, or Audits?

"Relatively few educational opportunities are provided to help trustees and policy makers understand how liabilities are calculated, in the role and sensitivity of actuarial assumptions, the impact that amortization periods and actuarial smoothing have on the retirement plan's short-term and long-term contribution rates, and of the full meaning of a plan's funded status."[29]

Therefore, the Grand Jury recommends that public agencies improve both their financial literacy and transparency:

- Elected officials should take (and invite the public to attend) a financial literacy class such as one offered by: League of California Cities,[30,31] UC Davis,[32] ICMA University,[33] Government Finance Officers Association,[34] or the California State Association of Counties.[35]
- Financial documents issued by public agencies should be made easier to understand by the average resident.
- Public financial presentations both by and to public agencies should be easier to understand.

For example, the Government Finance Officers Association has established best practices for budget documents,[36] and annually recognizes agencies with "Distinguished Presentation Awards." Governing Magazine's "Guide to Financial Literacy: Connecting Money, Policy and Priorities,"[37] explains not only the terminology and purpose of various financial documents, it also offers essential questions that leaders should know to ask. Additional examples of classes and presentations can also be found in Appendix H (Example Financial Literacy Classes and Presentations).

[29] Kehler, David. "Public Pension Plan Financing: The Devil's in the Actuarial Details." *Society of Actuaries.* 2010.
[30] "New Mayors & Council Members Academy." *League of California Cities*. Accessed Mar. 2017.
[31] "Municipal Finance Institute." *League of California Cities*. Accessed Mar. 2017.
[32] Brinkley, Dr. Catherine. "Community Governance." *UC Davis.* Spring 2016.
[33] "Local Government 101 Online Certificate Program." *ICMA University*.
[34] "Government Finance Officers Association Training." *Government Finance Officers Association*.
[35] "California State Association of Counties Upcoming Courses." *California State Association of Counties*.
[36] "Making the Budget Document Easier to Understand." *Government Finance Officers Association*. Feb 2014.
[37] Marlowe, Justin. "Guide to Financial Literacy: Connecting Money, Policy and Priorities." *Governing*. 2014.

We Are Not Alone

Marin County's public agencies are not unique in facing the challenges of OPEB liabilities.

"Total unfunded state other postemployment (OPEB) liabilities have increased, according to S&P Global Ratings' latest survey of U.S. states. For states that have completed new OPEB actuarial studies since our last survey (which used 2013 or prior studies), total liabilities increased $59.4 billion, or 12% over a span of two years."[38]

In January 2016, California Controller Betty Yee "pegged the state's unfunded liability for other post-employment benefits (OPEB) at $74.1 billion. That's how much it will cost to allow workers to stay on their health plans after they retire until they're eligible for Medicare, subsidize their premiums, and then provide them with supplemental benefits after Medicare kicks in. The benefit's value can exceed $16,000 in the case of married couples and $20,000 in the case of retirees with children."[39]

The City of San Luis Obispo (California) reduced their 2009 estimated $5.9 million OPEB liability to $4.2 million by changing their amortization period and changing from pay-go to prefunding their Annual Required Contribution (ARC). In January 2010, the City of Beverly Hills (California) eliminated OPEB liabilities for new non-safety hires by shifting from a defined *benefit* health plan to a defined *contribution* retiree health plan.[40] South Lake Tahoe (California) collaborated with its stakeholders to reduce OPEB liability by 73 percent by creating a new insurance plan.[41]

Sharing Our Data

Despite the fact that agencies' OPEB financial documents are publicly available, the Grand Jury spent an enormous effort to gather the documents (not all of the documents were available online, nor text-searchable), extract the data, and analyze it. With the rise of the Open Data Movement (examples include: Data.gov, the Data Foundation, OpenGov, Marin County's Open Data Portal, and the City of Sausalito's Budget Transparency Tool), we wanted other organizations – including future Grand Juries – to be able to leverage our public data. Therefore, we have created a data portal consisting of all the Comprehensive Annual Financial Reports (CAFRs) and Audits for the 39 agencies we researched for FY 2011– FY 2016 along with a spreadsheet containing validated data extracted from those and other financial reports (including Annual Required Contributions (ARCs), discount rates, amortization periods, and the change of assets, liabilities, and unfunded liability). This information is available online, for free access here: https://goo.gl/fSqOfX.

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[38] Spain, Carol. "Rising U.S. State Post-Employment Benefit Liabilities Signal An Unsustainable Trend." *Standard and Poors.* 7 Sep. 2016.
[39] Eide, Stephen and Disalvo, Daniel. "Phase out costly perks for retired state workers." *San Diego Union Tribune*. 1 Apr 2016.
[40] "Retiree Health Care: A Cost Containment How-To Guide." *League of California Cities*. Sep. 2016
[41] Kerry, Nancy. "Reducing Unfunded Liabilities for Other Post-Employment Benefits." *Western City*. May 2015.

CONCLUSION

Other Postemployment Benefits (OPEB) are just one of many financial obligations that public agencies face. Since the amount of the Annual Required Contribution (ARC) is a relatively small percentage for many agencies' annual total revenue, it is easy for them to not be too concerned (especially when faced by a much larger underfunded pension benefit). However, unlike pensions, agencies have more opportunities to reduce their OPEB obligations. The Grand Jury sees the delicate balance that agencies are facing: attracting new employees, negotiating with existing employees and retirees, and responsibly managing expenses in the public's interest. While some Marin agencies continue to reduce their unfunded OPEB liability, we are concerned that many agencies still have not yet done so. We hope that this report will give the agencies the additional reminders and tools to address this looming financial burden before more drastic measures need to be taken.

FINDINGS

F1. Many of the municipalities have *decreased* their UAAL obligation since FY 2012.

F2. Some of the schools that have *increased* their UAAL obligation (since FY 2012) are setting aside OPEB contributions into reserve funds (rather than irrevocable trust funds).

F3. Many of the special districts have *increased* their UAAL obligation since FY 2012.

F4. Some of the agencies that stated they comply with their actuarial funding guidelines, are not in compliance as shown in their CAFRs.

F5. GASB 45 has increased the agency's reporting transparency, but the information in these financial reports is difficult for the average person to understand.

F6. GASB 45 permits an agency with a full ARC funding policy in its GASB 45 valuation to increase its discount rate, thereby decreasing its OPEB liability and ARC payments.

F7. Upcoming GASB 75 reporting will further improve an agency's OPEB reporting transparency.

RECOMMENDATIONS

R1. Each agency should adopt a *formal, written policy* for contributions to its OPEB plan.

R2. Each agency's standard practice should be to consistently satisfy its formal, written OPEB contribution policy.

R3. Each agency's OPEB contribution policy and practice should support a projection under GASB 75 that its OPEB plan assets will be sufficient to make all projected OPEB benefit payments.

R4. Each agency that uses special reserve funds for Postemployment Benefits should transition to a trust meeting the criteria of GASB 75.

R5. Each term of service, elected or appointed officials of each agency should take a public agency financial class.

R6. Each agency should make its CAFRs, Audits, and GASB valuations more readily understandable by the general public.

R7. Each agency should ensure that all of its public financial *presentations* are more readily understandable and scheduled during hours convenient for the public.

R8. Each agency should have the following downloadable and text-searchable documents readily accessible on their website: the last five years of CAFRs/Audits and the last three actuarial reports.

R9. Before the next round of bargaining begins, each agency should prioritize the cost containment strategies to be used, including reducing or eliminating OPEB benefits for future employees.

REQUEST FOR RESPONSES

Pursuant to Penal code section 933.05, the grand jury requests responses as follows:

From the following governing bodies:

<u>Municipalities</u>

- City of Belvedere (R1-R9)
- City of Larkspur (R1-R9)
- City of Mill Valley (R1-R9)
- City of Novato (R1-R9)
- City of San Rafael (R1-R9)
- City of Sausalito (R1-R9)
- County of Marin (R1-R9)
- Town of Corte Madera (R1-R9)
- Town of Fairfax (R1-R9)
- Town of Ross (R1-R9)
- Town of San Anselmo (R1-R9)
- Town of Tiburon (R1-R9)

School Districts

- Dixie Elementary School District (R1-R9)
- Kentfield School District (R1-R9)
- Larkspur-Corte Madera School District (R1-R9)
- Marin Community College District (R1-R9)
- Mill Valley School District (R1-R9)
- Novato Unified School District (R1-R9)
- Reed Union School District (R1-R9)
- Ross School District (R1-R9)
- Ross Valley School District (R1-R9)
- San Rafael City Schools (R1-R9)
- Shoreline Unified School District (R1-R9)
- Tamalpais Union High School District (R1-R9)

Special Districts

- Central Marin Police Authority (R1-R9)
- Central Marin Sanitation Agency (R1-R9)
- Kentfield Fire Protection District (R1-R9)
- Las Gallinas Valley Sanitary District (R1-R9)
- Marin Municipal Water District (R1-R9)
- Marin/Sonoma Mosquito & Vector Control District (R1-R9)
- Marinwood Community Services District (R1-R9)
- North Marin Water District (R1-R9)
- Novato Fire Protection District (R1-R9)
- Novato Sanitary District (R1-R9)
- Ross Valley Fire Department (R1-R9)
- Ross Valley Sanitary District (R1-R9)
- Southern Marin Fire Protection District (R1-R9)
- Tiburon Fire Protection District (R1-R9)

The governing bodies indicated above should be aware that the comment or response of the governing body must be conducted in accordance with Penal Code section 933 (c) and subject to the notice, agenda and open meeting requirements of the Brown Act.

Note: At the time this report was prepared information was available at the websites listed.

Reports issued by the Civil Grand Jury do not identify individuals interviewed. Penal Code Section 929 requires that reports of the Grand Jury not contain the name of any person or facts leading to the identity of any person who provides information to the Civil Grand Jury. The California State Legislature has stated that it intends the provisions of Penal Code Section 929 prohibiting disclosure of witness identities to encourage full candor in testimony in Grand Jury investigations by protecting the privacy and confidentiality of those who participate in any Civil Grand Jury investigation.

GLOSSARY

Actuary: A professional dealing with the assessment and management of risk for financial investments, insurance policies, and any other ventures involving a measure of uncertainty.[42]

Actuarial Accrued Liability (AAL): The portion of the actuarial present value benefits allocated to prior years of employment—and thus not provided for by future normal costs.[43]

Actuarially Determined Contribution (ADC): "A target or recommended contribution to a defined benefit OPEB plan for the reporting period, determined in conformity with Actuarial Standards of Practice based on the most recent measurement available when the contribution for the reporting period was adopted."[44]

Annual Required Contribution (ARC): The ARC is the employer's periodic required contribution to a defined benefit OPEB plan. The ARC is the sum of two parts: (1) the normal cost, which is the cost for OPEB benefits attributable to the current year of service, and (2) an amortization payment, which is a catch-up payment for past service costs to fund the Unfunded Actuarial Accrued Liability (UAAL) over the next 30 years.[45] Despite the name "Annual **Required** Contribution," the contribution is not legally required.

California Employers' Retiree Benefit Trust (CERBT): This trust fund is dedicated to prefunding Other Post Employment Benefits (OPEB) for all eligible California public agencies. Even those not contracted with CalPERS health benefits can prefund future retiree benefits such as health, vision, dental, and life insurance.[46]

California Public Employees' Retirement System (CalPERS): An agency in the California executive branch that serves more than 1.7 million members in its retirement system and administers benefits for nearly 1.4 million members and their families in its health program.[47]

Discount Rate: A percentage rate required to calculate the present value of a future cash flow.[48]

Governmental Accounting Standards Board (GASB): "The independent organization that establishes and improves standards of accounting and financial reporting for U.S. state and local governments. Established in 1984 by agreement of the Financial Accounting Foundation (FAF) and 10 national associations of state and local government officials, the GASB is recognized by governments, the accounting industry, and the capital markets as the official source of generally accepted accounting principles (GAAP) for state and local governments."[49]

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42 "Definition of 'Actuary'." *Investopedia*.
43 "Other Postemployment Benefits: A Plain-Language Summary of GASB Statements No. 43 and No. 45." *Governmental Accounting Standards Board*.
44 "Statement No. 75 of the Governmental Accounting Standards Board." *Governmental Accounting Standards Board*. No. 350. June 2015.
45 "GASBhelp." *Governmental Accounting Standards Board*.
46 "California Employers' Retiree Benefit Trust (CERBT) Fund." *CalPERS*. Accessed March 2017.
47 "CalPERS Story." *CalPERS*. Accessed March 2017.
48 "Fixed Income Bond Terms." *Corporate Finance Institute*.
49 "FACTS about GASB." *Governmental Accounting Standards Board.* 2012–2014.

Implied Rate Subsidy: The implicit rate is an inherent subsidy of retiree health care costs by active employee health care costs when health care premiums paid by retirees and actives are the same.[50]

Net OPEB liability: Introduced in GASB 75, the liability of employers and nonemployer contributing entities to employees for benefits provided through a defined benefit OPEB plan that is administered through a trust.[51] GASB 45 uses Unfunded Actuarial Accrued Liability (UAAL) to connote a similar liability.

Other Postemployment Benefits (OPEB): Benefits (other than pensions) that U.S. state and local governments provide to their retired employees. These benefits principally involve health care benefits, but also may include life insurance, disability, legal and other services.[52]

Pay-As-You-Go Funding (Pay-go): With pay-as-you-go funding, plan contributions are made as benefit payments become due and funds necessary for future liability are not accumulated. That is, contributions made are for current retirees only, causing the majority of retiree health benefits liability to be considered unfunded.[53]

Public Employees' Retirement System (PERS): The retirement and disability fund for public employees in California.

Unfunded Actuarial Accrued Liability (UAAL): The excess of the Actuarial Accrued Liability (AAL) over the actuarial value of assets.[54]

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[50] "Glossary: Implied Rate Subsidy." *Milliman*.
[51] "Summary of Statement No. 75: Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions." *Governmental Accounting Standards Board*. June 2015.
[52] "Other Postemployment Benefits (OPEB)." *Governmental Accounting Standards Board*.
[53] "Glossary: Pay-as-you-go funding." *Milliman*.
[54] "Other Postemployment Benefits: A Plain-Language Summary of GASB Statements No. 43 and No. 45." *Governmental Accounting Standards Board*.

APPENDIX A: OPEB Questionnaire to Public Agencies

OPEB Questionnaire

Definitions

A. Other Post Employment Benefits (OPEB): Benefits (other than pensions) that U.S. state and local governments provide to their retired employees. These benefits principally involve health care benefits, but also may include life insurance, disability, legal and other services.

B. Actuarial Accrued Liability (AAL): Excess of the present value of a OPEB fund's total of future benefits (payable to the OPEB beneficiaries) and fund administration expenses over the present value of the future normal cost of those benefits.

C. Actuarial Value of Assets (AVA): The value of OPEB investments and other property used by the actuary for the purpose of an actuarial valuation (sometimes referred to as valuation assets). Actuaries often select an asset valuation method that smoothes the effects of short-term volatility in the market value of assets.

D. Unfunded Actuarial Accrued Liability (UAAL): The UAAL is the Actuarial Accrued Liability (AAL) minus the value of any assets (AVA) that have been irrevocably set aside to fund future benefits.

E. Annual Required Contribution (ARC): The annual required contribution, or ARC, refers to the amount needed to be contributed by employers to adequately fund an OPEB plan. The ARC is the sum of two factors: a) the cost of OPEB benefits being accrued in the current year (known as the normal cost), plus b) the cost to amortize, or pay off, the OPEB plan's unfunded liability. The ARC is the required employer contribution after accounting for other revenue, chiefly expected investment earnings and contributions from employee participants.

F. Discount Rate: The interest rate used to bring future cash flows to the present to account for the time value of money

APPENDIX A: OPEB Questionnaire to Public Agencies (cont'd)

Agency Identification

1. Name of Responding Agency. ____

Separate Investment Accounts

Please respond to this set of questions with regard to the existence of a separate investment account into which you may deposit each year's funds for amortizing your retiree health care benefits' UAAL?

2. Do you have such a separate investment account?
   ____
3. If you have a separate investment account, when did you set up that account?
   ____
4. If you do have such a separate investment account, what, is its current value?
   ____
5. If you do have a separate investment account, what is the value of your deposits into that account for each of the fiscal years 2011-2012 to the present?
   - (1) Fiscal Year 2011-2012 ____________________
   - (2) Fiscal Year 2012-2013 ____________________
   - (3) Fiscal Year 2013-2014 ____________________
   - (4) Fiscal Year 2014-2015 ____________________
   - (5) Fiscal Year 2015-2016 ____________________
6. If you have any other accounts to fund retiree health care benefits, please identify the nature, purpose and current value of those account(s).
   ____
   ____
7. If you do not have an investment account to fund retiree healthcare benefits why not?
   ____

APPENDIX A: OPEB Questionnaire to Public Agencies (cont'd)

Annual Required Contribution ("ARC")

8. What is your ARC for each of the fiscal years 2011-2012 to the present?

    (1) Fiscal Year 2011-2012 ____________________

    (2) Fiscal Year 2012-2013 ____________________

    (3) Fiscal Year 2013-2014 ____________________

    (4) Fiscal Year 2014-2015 ____________________

    (5) Fiscal Year 2015-2016 ____________________

9. Have you committed to fully fund each year's ARC?

    ____

10. If you have you committed to fully fund each year's ARC, when did you make that commitment? ____

11. If you have you committed to fully fund each year's ARC in what amount did you fund each year's ARC for fiscal years 2011-2012 to the present?

    (1) Fiscal Year 2011-2012 ____________________

    (2) Fiscal Year 2012-2013 ____________________

    (3) Fiscal Year 2013-2014 ____________________

    (4) Fiscal Year 2014-2015 ____________________

    (5) Fiscal Year 2015-2016 ____________________

12. If you have you not committed to fully fund each year's ARC, in what amount did you fund each year's ARC for fiscal years 2011-2012 to the present?

    (1) Fiscal Year 2011-2012 ____________________

    (2) Fiscal Year 2012-2013 ____________________

    (3) Fiscal Year 2013-2014 ____________________

    (4) Fiscal Year 2014-2015 ____________________

    (5) Fiscal Year 2015-2016 ____________________

APPENDIX A: OPEB Questionnaire to Public Agencies (cont'd)

13. What discount rate(s) have you used to calculate your ARC for each year for fiscal years 2011-2012 to the present?

    (1) Fiscal Year 2011-2012 ____________________

    (2) Fiscal Year 2012-2013 ____________________

    (3) Fiscal Year 2013-2014 ____________________

    (4) Fiscal Year 2014-2015 ____________________

    (5) Fiscal Year 2015-2016 ____________________

14. Please explain how you arrived at such discount rate(s) for fiscal years 2011-2012 to the present.

    ____

    ____

15. Please specify the amortization period which you have used for each year fiscal year from 2011-2012 to the present to calculate your ARC and to fund your retiree health care benefits UAAL.

    (1) Fiscal Year 2011-2012 ____________________

    (2) Fiscal Year 2012-2013 ____________________

    (3) Fiscal Year 2013-2014 ____________________

    (4) Fiscal Year 2014-2015 ____________________

    (5) Fiscal Year 2015-2016 ____________________

Negotiations to Reduce OPEB Obligations

16. If from fiscal years 2011-2012 to the present you have negotiated any caps with any employee group(s) or negotiating group(s) on the amounts you commit to pay existing or new employees for retiree health care benefits, please specify the following for each negotiating group:

    (1) The employee group(s) or negotiating group(s):

    ____

APPENDIX A: OPEB Questionnaire to Public Agencies (cont'd)

(2) The nature of the cap: ____

(3) The date such cap was negotiated: ___________________

(4) Whether applicable to both new and existing employees:
____

(5) If there is no negotiated cap, what is your cap?
____

17. If from fiscal years 2011-2012 to the present you have negotiated with any employee group or negotiating group a higher retirement age on the amounts you commit to pay existing or new employees for retiree health care benefits, please specify the following for each employee group(s) and negotiating group(s):

(1) The employee group(s) or negotiating group(s):
____

(2) The change in retirement age: ____

(3) The date such higher retirement age was negotiated: ___________________

(4) Whether the higher retirement age is applicable to both new and existing employees: _______________________________________

18. If from fiscal years 2011-2012 to the present you have negotiated with any employee group(s) or negotiating group(s) to require active employees to contribute towards the cost of their retiree health care benefits, please specify the following for each employee group(s) and negotiating group(s):

(1) The employee group(s) or negotiating group(s):
____

(2) The nature of employee contribution:
____

(3) Whether you increased the employee's compensation to satisfy part of this contribution:
____

(4) The date such increased contribution went into effect: ___________________

APPENDIX A: OPEB Questionnaire to Public Agencies (cont'd)

(5) Whether applicable to both new and existing employees:

____

(6) The amount of the employee contribution:

____

19. Please explain the nature of reduction in OPEB benefits, if any, when a recipient becomes eligible for Medicare.

____

____

20. What OPEB benefits (by type and agency funding amount) do you offer to your employees. If the benefits differ between employee group or negotiating groups or based on date of hire, please explain.

____

____

Your Website

21. Is there a link on your website to provide the latest following information?

____

(1) actuarial valuation of your AAL,
(2) your UAAL,
(3) its consequent percent funded,
(4) the Discount Rate (annual percentage) used to determine these values, and
(5) a projection of outlays ("Pay-Go") for retiree health care benefits for each of the current and subsequent 10 years?

(Collectively "Website Link")

22. If you maintain a Website Link, when was this information first put on your website?

____

23. With regard to the Website Link information, to the extent such information is not on your website, why not?

____

APPENDIX A: OPEB Questionnaire to Public Agencies (cont'd)

24. Please provide us the URL for the website page(s) that display this Website Link information.

____
_____

Financial Reporting

25. Please provide the audited Comprehensive Annual Financial Report (CAFR) for fiscal year 2012 (2011-2012) in one of the following formats:

(1) a hyperlink to a publicly available web site containing the appropriate PDF document (preferred): ____

(2) a digital copy of the appropriate PDF file, or

(3) a printed document.

APPENDIX B: Example Actuarial Valuation Certification

ACTUARIAL VALUATION CERTIFICATION

This report presents the City of Novato's Retiree Healthcare Plan ("Plan") January 1, 2014 actuarial valuation. The purpose of this valuation is to:

- Determine the Governmental Accounting Standards Board Statement Nos. 43 and 45 January 1, 2014 Benefit Obligations,
- Determine the Plan's January 1, 2014 Funded Status, and
- Calculate the 2014/15 and 2015/16 Annual Required Contributions.

The report provides information intended for reporting under GASB 43 and 45, but may not be appropriate for other purposes. Information provided in this report may be useful to the City for the Plan's financial management. Future valuations may differ significantly if the Plan's experience differs from our assumptions or if there are changes in Plan design, actuarial methods, or actuarial assumptions. The project scope did not include an analysis of this potential variation.

The valuation is based on Plan provisions, participant data, and asset information provided by the City as summarized in this report, which we relied on and did not audit. We reviewed the participant data for reasonableness.

To the best of our knowledge, this report is complete and accurate and has been conducted using generally accepted actuarial principles and practices. Additionally, in our opinion, actuarial methods and assumptions comply with GASB 43 and 45. As members of the American Academy of Actuaries meeting the Academy Qualification Standards, we certify the actuarial results and opinions herein.

Respectfully submitted,

John E. Bartel, ASA, MAAA, FCA
President
Bartel Associates, LLC
October 28, 2014

Bianca Lin, FSA, MAAA, EA
Assistant Vice President
Bartel Associates, LLC
October 28, 2014

Source: "City of Novato Retiree Healthcare Plan." City of Novato, California. January 1, 2014.

APPENDIX C: Finding Key OPEB Information in CAFRs or Audits

Where can people find important OPEB-related information in an agency's financial reports?

Example from a Municipality's Comprehensive Annual Financial Report (CAFR) (note: no prefunding contributions made):

NOTE 10 - Postemployment Benefits Other Than Pensions

Development of 2015 / 2016 Fiscal Year
Annual OPEB Cost - Based on a 4.00% discount rate

AAL	Actuarial Accrued Liability	$ 3,629,754
	Actuarial Value of Assets	-
UAAL	Unfunded Actuarial Accrued Liability	$ 3,629,754
	Amortization Period	23 years
	Annual % of Payroll Amortization of Unfunded AAL	$ 119,323
	Normal Cost (based on the Entry Age Normal Method)	177,525
ARC	Annual Required Contribution	296,848
	Interest on Net OPEB Obligation	73,576
	Adjustment to ARC	(89,962)
	Annual OPEB Cost	280,462
	Pay-as-you-go Cost	(105,580)
	Increase in net OPEB Obligation	174,882
	Net OPEB Obligation - beginning of year	1,839,397
	Net OPEB Obligation - end of year	$ 2,014,279

Example from a Municipality's Comprehensive Annual Financial Report (CAFR):

Required Supplementary Information
Schedule of Funding Progress (unaudited)
Other Postemployment Benefits Plan
As of June 30, 2016

The Schedule of Funding Progress presents trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. Trend information from the actuarial studies is presented below:

Actuarial Valuation Date	Actuarial Accrued Liability (AAL) (a)	Actuarial Value of Assets (b)	Unfunded AAL (UAAL) (a-b)	Funded Ratio (b/a)	Covered Payroll (c)	UAAL as a % of Covered Payroll [(a-b)/c]
July 1, 2008	$ 1,747,300	$ -	$ 1,747,300	0%	$ 3,725,600	46.9%
July 1, 2011	$ 1,941,900	$ -	$ 1,941,900	0%	$ 4,068,100	47.7%
July 1, 2014	$ 1,628,827	$ -	$ 1,628,827	0%	$ 1,999,530	81.5%

APPENDIX C: Finding Key OPEB Information in CAFRs or Audits (cont'd)

Example from School District's Audit:

ARC	Annual required contribution (ARC)	$	24,585
	Interest on net OPEB obligation		(499)
	Adjustment to ARC		1,537
	Annual OPEB cost		25,623
Contribution	Contributions made:		
	Contributions from governmental funds		(19,944)
	Decrease in net OPEB (asset)		5,679
	Net OPEB Obligation (asset) - July 1, 2015		(12,465)
	Net OPEB Obligation (asset) - June 30, 2016	$	(6,786)

Funded Status and Funding Progress - OPEB Plans

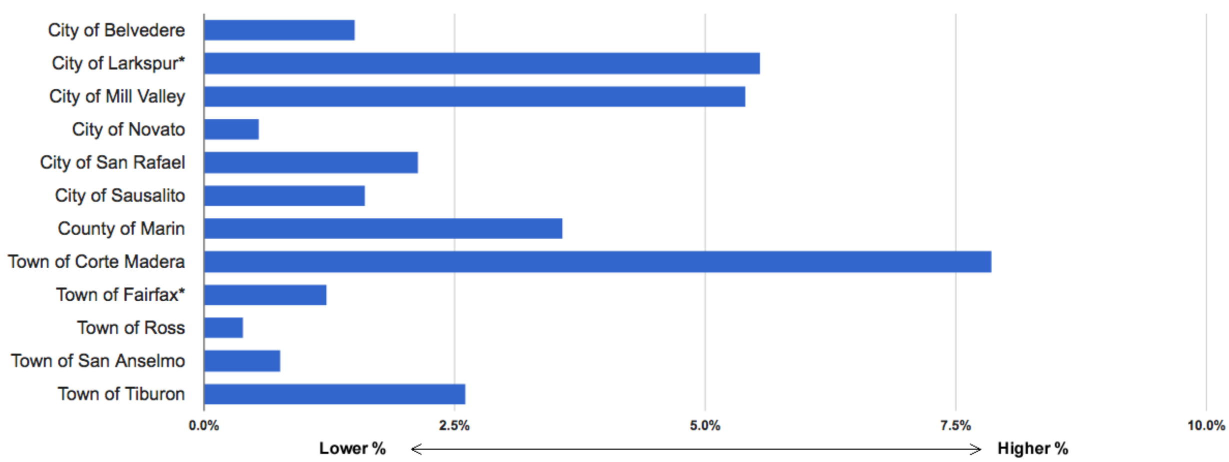
As of July 1, 2014, the most recent actuarial valuation date, the District did not have a funded plan. The actuarial liability (AAL) for benefits was $189,127 and the unfunded actuarial accrued liability (UAAL) was $189,127.

APPENDIX D: Marin Municipalities' ARC as a Percentage of Total Revenue

The amount of an agency's annual required contribution (ARC) can be compared to its total revenue. A higher percentage may signal future budgetary challenges if not properly managed.

Municipality	UAAL FY 2012	UAAL FY 2016	UAAL Change	ARC FY 2016	Total Revenue FY 2016
City of Belvedere	$374,116	$1,036,193	662,077	$118,105	$7,855,000
City of Larkspur*	$7,493,551	$13,698,307	6,204,756	$1,165,424	$21,009,094
City of Mill Valley	$24,481,979	$20,156,488	(4,325,491)	$2,157,955	$39,916,000
City of Novato	$2,786,000	$3,673,318	887,318	$262,000	$47,954,000
City of San Rafael	$24,295,000	$32,727,000	8,432,000	$2,148,000	$100,490,000
City of Sausalito	$6,646,550	$5,730,670	(915,880)	$428,391	$26,588,325
County of Marin	$382,720,000	$294,375,000	(88,345,000)	$21,937,000	$611,801,000
Town of Corte Madera	$11,790,000	$9,704,000	(2,086,000)	$1,855,000	$23,593,928
Town of Fairfax*	$1,024,300	$835,400	(188,900)	$116,600	$9,212,366
Town of Ross	$417,000	$383,000	(34,000)	$36,000	$9,264,385
Town of San Anselmo	$1,941,900	$1,628,827	(313,073)	$147,364	$19,216,454
Town of Tiburon	$2,900,736	$3,629,754	729,018	$296,848	$11,341,758

Municipalities: FY 2016 ARC as Percentage of Total Revenue

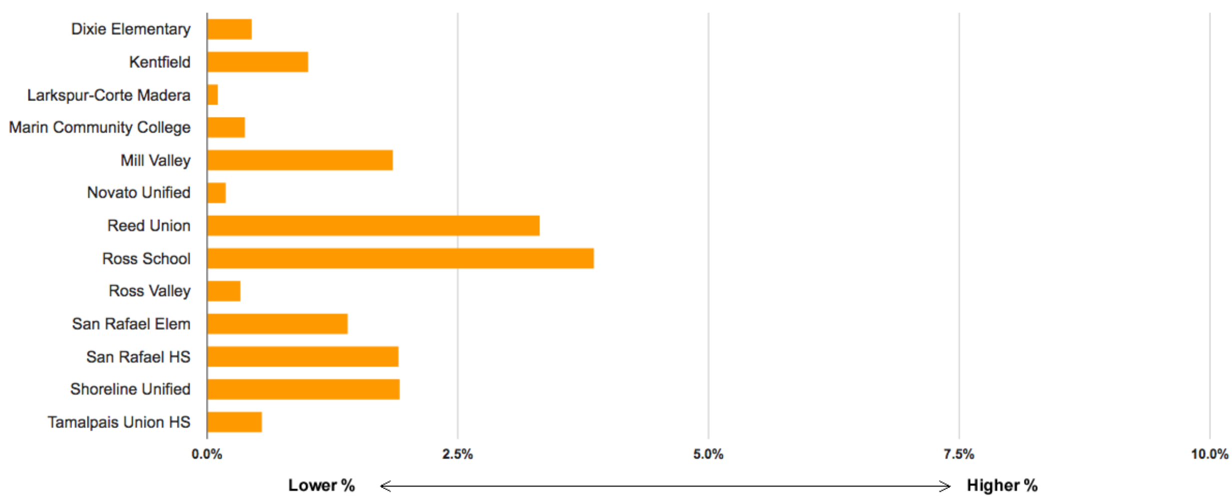


APPENDIX E: Marin School Districts' ARC as a Percentage of Total Revenue

The amount of an agency's annual required contribution (ARC) can be compared to its total revenue. A higher percentage may signal future budgetary challenges if not properly managed.

School District	UAAL FY 2012	UAAL FY 2016	UAAL Change	ARC FY 2016	Total Revenue FY 2016
Dixie Elementary	$1,057,000	$1,128,416	71,416	$114,463	$25,361,193
Kentfield	$1,432,000	$1,340,399	(91,601)	$199,312	$19,712,081
Larkspur-Corte Madera	$207,671	$189,127	(18,544)	$24,585	$21,966,152
Marin Community College	$6,604,85	$877,366	(5,727,491)	$261,064	$67,403,849
Mill Valley	$2,159,158	$4,662,117	2,502,959	$945,212	$50,815,837
Novato Unified	$823,300	$1,503,161	679,861	$175,235	$94,185,666
Reed Union	$2,730,727	$5,867,732	3,137,005	$855,510	$25,711,228
Ross School	$2,085,000	$3,086,992	1,001,992	$338,061	$8,748,369
Ross Valley	$1,838,000	$1,561,792	(276,208)	$98,513	$29,323,920
San Rafael Elem	$5,462,058	$6,200,000	737,942	$880,377	$62,306,271
San Rafael HS	$4,943,154	$5,400,000	456,846	$726,362	$37,919,147
Shoreline Unified	$1,798,111	$2,013,470	215,359	$286,133	$14,823,677
Tamalpais Union HS	$3,892,000	$3,053,537	(838,463)	$505,711	$92,371,238

School Districts: FY 2016 ARC as Percentage of Total Revenue

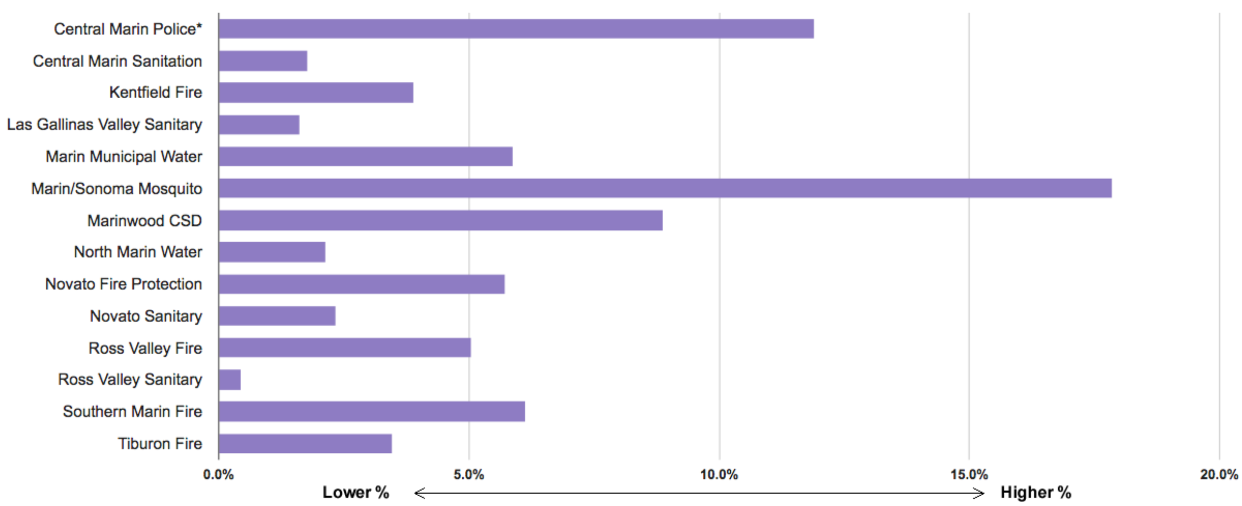


APPENDIX F: Special Districts' ARC as a Percentage of Total Revenue

The amount of an agency's annual required contribution (ARC) can be compared to its total revenue. A higher percentage may signal future budgetary challenges if not properly managed.

Special District	UAAL FY 2012	UAAL FY 2016	UAAL Change	ARC FY 2016	Total Revenue FY 2016
Central Marin Police*	$7,493,551	$15,155,425	7,661,874	$1,321,032	$11,087,891
Central Marin Sanitation	$2,872,049	$2,496,424	(375,625)	$301,327	$16,952,527
Kentfield Fire	$2,004,784	$2,146,412	141,628	$195,606	$5,014,333
Las Gallinas Valley Sanitary	$1,985,486	$2,094,980	109,494	$211,861	$12,976,695
Marin Municipal Water	$34,264,000	$33,104,000	(1,160,000)	$3,683,000	$62,502,430
Marin/Sonoma Mosquito	$12,030,407	$15,038,000	3,007,593	$1,542,000	$8,638,747
Marinwood CSD	$4,422,797	$6,477,757	2,054,960	$518,769	$5,837,007
North Marin Water	$3,470,834	$4,085,375	614,541	$384,385	$17,912,719
Novato Fire Protection	$16,751,185	$13,567,350	(3,183,835)	$1,596,595	$27,838,320
Novato Sanitary	$6,112,283	$6,313,211	200,928	$452,506	$19,299,289
Ross Valley Fire	$4,917,120	$5,121,615	204,495	$485,075	$9,598,396
Ross Valley Sanitary	$302,766	$693,717	390,951	$109,118	$23,623,985
Southern Marin Fire	$5,285,282	$7,089,540	1,804,258	$916,153	$14,911,632
Tiburon Fire	$2,269,028	$2,182,181	(86,847)	$249,592	$7,184,792

Special Districts: FY 2016 ARC as Percentage of Total Revenue



APPENDIX G: GASB 45 vs. GASB 75 Overview

GASB 45[55,56]	GASB 75[57,58,59,60]	Effect
Actuarial valuations required every 2 or 3 years (based on number of OPEB plan members), with optional alternative measurement method if fewer than 100 plan members.	Actuarial valuation required every 2 years for all OPEB plans, with optional alternative measurement method if fewer than 100 plan members.	More current picture of actuarial liability.
No single discount rate is required when an employer contributes less than ARC but has *some* plan assets.	Requires single discount rate that reflects (1) a long-term rate on plan assets to the extent they are projected to always be sufficient to cover projected payments, and (2) a municipal bond (*lower*) rate for the years when plan assets are not projected to cover projected payments. The projection must be based in part on whether the employer has a policy and practice to make its benefit payments.	Improves consistency, comparability and transparency of OPEB liability reporting. Long-term liability is more accurately stated.
Only "net OPEB obligation" required on face of balance sheet. Unfunded liability (UAAL) reported in plan notes in CAFR (Comprehensive Annual Financial Report) or Audit.	Net OPEB Liability (NOL) reported on the face of the balance sheet. NOL equals actuarial accrued liability (TOL) minus market value of plan assets (FNP). NOL same as UAAL with some technical differences.	Financial reporting of OPEB liabilities parallels GASB 68 for pension reporting.
Provides for limited disclosures in financial statement notes and required supplementary information schedules.	Provides for more extensive disclosures in financial statement notes and schedules. The note disclosures include (1) an explanation of how and why the NOL changed from year to year, (2) a description of contribution requirements and how they are determined, (3) a statement of assumptions and other inputs used to measure, (4) detailed information about the discount rate used, and (5) NOL calculations with 1% increases and decreases in medical trend rate and discount rate.	Improves transparency of OPEB liability reporting.
Six acceptable actuarial cost methods	Must use a single actuarial cost method (*entry age actuarial cost method*).	Improves consistency, comparability, and transparency of OPEB liability reporting
Permits a choice between open or closed amortization periods.	Must use a defined closed period amortization for expenses.	Improves consistency, comparability, and transparency of OPEB liability reporting

[55] "Summary of Statement No. 45: Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions." *Governmental Accounting Standards Board*. June 2004
[56] "Guide to Implementation of GASB Statements 43 and 45 on Other Postemployment Benefits." *Governmental Accounting Standards Board*. 2005.
[57] "Summary of Statement No. 75: Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions." *Governmental Accounting Standards Board*. June 2015.
[58] "Overview of GASB Statements 73, 74, and 75." *Milliman*. March 2016
[59] "Brief Summary of New OPEB Accounting Standards: GASB 74 and 75." *Bartel Associates*. July 2015.
[60] "GASB Approves New OPEB Employer Accounting Standard (No. 75)." *Bartel Associates*. July 2015.

APPENDIX H: Example Financial Literacy Classes and Presentations

County Financial Reporting and Budgeting for Nonfinancial Professionals

Understand and interpret county financial reports

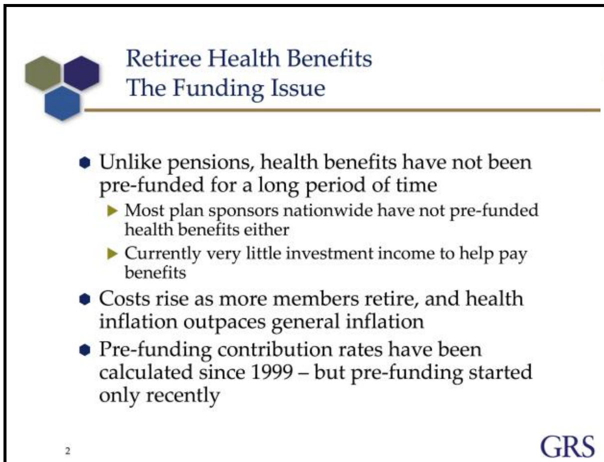
This course provides the tools for decision-makers, elected officials, senior managers – other than accountants and auditors – who want to have an overview understanding of government financial reporting. Participants discuss budgets, financial statements and the audit, and at the 30,000' level what each of those is saying (or not saying!). Participants should bring questions about terms or concepts they have encountered as part of their interaction with county and government financial reporting. The discussion reviews terms and definitions used with government financial reporting and strategies on how to read financial statements and auditor reports to identify critical information and understand what it means … in plain English!

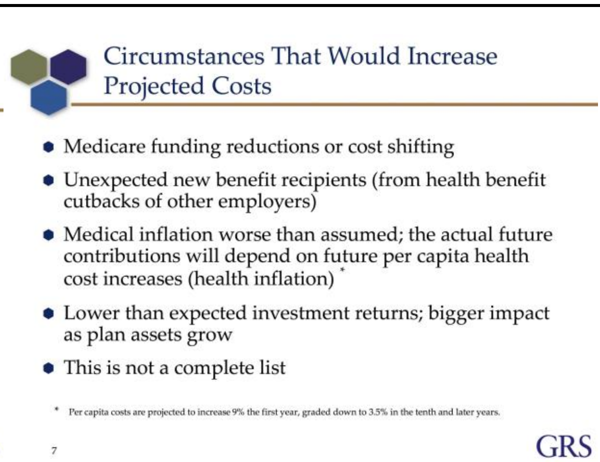
Financial Management: Debt and Investment of Public Funds

Make informed decisions about the use of public resources

Elected and appointed officials make critical decisions on the issuance and administration of debt, and the investment of public funds, but may have little experience or depth of knowledge on this complicated subject. This class provides a foundation on understanding debt, debt capacity, options, and county policy on debt. It examines the fiduciary responsibilities of elected and appointed officials and then explores investment of public funds. An overview of prudent investment policy, portfolio strategy and the role of the investment advisors are also explored.

From: [California State Association of Counties]





From: "[Michigan State Employees: Retiree Health Actuarial Valuation]." *Gabriel Roeder Smith & Company*. 30 Sep. 2015

RESPONSE TO GRAND JURY REPORT

Report Title: **Marin's Retirement Health Care Benefits**

Report Date: **May 17, 2017** Response Date**: Aug 17, 2017**

Agency Name: ______________________________ Agenda Date: ________________

Response by: _______________________________ Title:_________________________

FINDINGS

- I (we) agree with the findings numbered: __________________________
- I (we) disagree *partially* with the findings numbered: _______________
- I (we) disagree *wholly* with the findings numbered: ________________

  (Attach a statement specifying any portions of the findings that are disputed; include an explanation of the reasons therefor.)

RECOMMENDATIONS

- Recommendations numbered ____________________ have been implemented.

  (Attach a summary describing the implemented actions.)

- Recommendations numbered ____________________ have not yet been implemented, but will be implemented in the future.

  (Attach a timeframe for the implementation.)

- Recommendations numbered ____________________ require further analysis.

  (Attach an explanation and the scope and parameters of an analysis or study, and a timeframe for the matter to be prepared for discussion by the officer or director of the agency or department being investigated or reviewed, including the governing body of the public agency when applicable. This timeframe shall not exceed six months from the date of publication of the grand jury report.)

- Recommendations numbered____________________ will not be implemented because they are not warranted or are not reasonable.

  (Attach an explanation.)

Date:___________ Signed:_______________________________________

Number of pages attached____

NOVATO SANITARY DISTRICT
BOARD AGENDA ITEM SUMMARY

TITLE: Collection System Operations: Purchase of Flusher Truck	**MEETING DATE: May 22, 2017** **AGENDA ITEM NO.: 9.a.**

RECOMMENDED ACTION: Authorize purchase of a hydro-flusher truck, and authorize the General Manager-Chief Engineer to execute a purchase order with National Auto Fleet Group in the amount of $170,052.12 (plus applicable taxes and fees).

SUMMARY AND DISCUSSION:

The FY16-17 budget for Account No. 73090 - Vehicle Replacement, includes funds for the purchase of a hydro-flusher truck. In a team effort, District Collection System staff identified their needs as a truck consisting of a skid mounted jetter unit with two, 300-gallon water tanks, pump and a hose reel with 800 feet of ¾" diameter high pressure hose, mounted on a 19,500 lb. GVWR (gross vehicle weight rating) chassis. This truck is much more maneuverable and with the smaller, lighter hose, is more versatile than the District's existing hydro-flusher trucks, and does not require special permits or licenses to operate.

Staff worked with the National Joint Powers Alliance (NJPA), a public agency serving its members as a municipal contracting agency, (similar to the State Department of General Services (DGS) or the Federal General Services Administration (GSA)). NJPA contracts are nationally solicited, competitively bid, and awarded on behalf of NJPA's current and potential government and education member agencies.

Staff contacted National Auto Fleet Group (Watsonville, CA), the holder of the current NJPA National Contract (NJPA contracts # 120716) for vehicles of this nature, and requested a proposal to supply the District with a truck that met District specifications. The District has received a quote from National Auto Fleet Group of $170,052.12 for the truck, ($53,897.42 for the cab & chassis and $116,154.70 for the platform body and hydro-flusher equipment), plus applicable sales tax and fees.

The FY16-17 budget includes a budget amount of $425,000, which currently has an anticipated unencumbered balance of $395,000. Staff recommends authorizing the General Manager-Chief Engineer to execute a purchase order in the amount of $170,052.12 (plus applicable taxes and fees), for the purchase of a new flusher truck.

STRATEGIC PLAN INFORMATION: This item addresses Goal 1 (Operational Excellence), and Goal 2 (Reliable and Efficient Facilities) of the latest Strategic Plan Update.

BUDGET INFORMATION: The FY16-17 budget in the vehicle replacement fund is $425,000 of which about $30,000 is committed towards other items, for a current anticipated unencumbered balance of $395,000.

DEPT. MGR. srk, dd	**GENERAL MANAGER:** SSK

NOVATO SANITARY DISTRICT
BOARD AGENDA ITEM SUMMARY

TITLE: Ad Hoc Personnel Committee – Performance Evaluation, General Manager-Chief Engineer	MEETING DATE: May 22, 2017 AGENDA ITEM NO.: 10.a.

RECOMMENDED ACTION: The Ad Hoc Personnel Committee recommends that the Board receive the Committee's report and recommendation, and approve a 5% merit increase on base salary, payable beginning with fiscal year 2016-17, to the General Manager–Chief Engineer.

SUMMARY AND DISCUSSION:

At the March 13, 2017 Board meeting, Directors Peters and Mariani were appointed to serve as an Ad Hoc Personnel Committee (Committee) to discuss the General Manager-Chief Engineer's performance with him.

The Committee met several times with the General Manager-Chief Engineer and evaluated his performance as it aligned with the goals and objectives of the District's Strategic Plan. The Board met with the General Manager-Chief Engineer in closed session initially on April 24, 2017. The Committee then prepared the attached memorandum for the Board's consideration in a closed session with the General Manager-Chief Engineer at the May 8, 2017 Board meeting. Overall, the Committee and Board expressed satisfaction with the General Manager-Chief Engineer's and the District's accomplishments. The Committee noted that his opinion of the District staff's "exemplary service" extends as well to his.

Based on the Committee's review and discussions with the General Manager-Chief Engineer, the Committee initially recommended the Board authorize a five percent merit increase on base salary payable as a contribution to the General Manager-Chief Engineer's deferred compensation account beginning with fiscal year 2016-17. However, at this time, the Committee recommends that the Board authorize a straight five percent (5%) merit increase on base salary, payable beginning with fiscal year 2016-17, to $18,675 per month, as it appears that the structure of the District's deferred compensation plan may preclude implementing the prior recommendation.

ATTACHMENT: 1. Memorandum dated May 4, 2017 from Ad-Hoc Personnel Committee to Board.

STRATEGIC PLAN INFORMATION: This item addresses Goal 5 (Effective Governance and Administration) of the latest Strategic Plan Update.

Respectfully Submitted: Ad Hoc Personnel Committee (Directors Mariani and Peters).

Item 10.a.
Attachment 1

MEMORANDUM

DATE: May 4, 2017
TO: Novato Sanitary District Board of Directors
FROM: Ad hoc Personnel Committee (Jerry Peters and Jean Mariani)
RE: Annual Performance Review of General Manager-Chief Engineer

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Over the course of several meetings with Sandeep Karkal, General Manager-Chief Engineer, and in closed session with the Board of Directors, the ad hoc Personnel Committee reviewed and discussed the work performed by the General Manager-Chief Engineer. Since his appointment to this position, we believe that Sandeep has provided exemplary performance. The summary tied to the District's Strategic Plan, previously provided to the Board of Directors, describes the details of his activities in the past year.

As a result of our review, the ad hoc Personnel Committee recommends that the Board of Directors authorize a five percent merit increase on base salary payable as a contribution to Sandeep's deferred compensation account beginning with fiscal year 2016-17.

Going forward, we have requested that Sandeep work to provide more timely and complete status reports on District activities to the Board of Directors, particularly with long-lead items. Specifically, when requested by one or more Directors at a Board meeting, Sandeep will advise the Board President as to when he can return to the Board with the requested information for presentation at a future meeting. In those instances where additional work by staff or consultants is needed to complete the information, Sandeep will keep the Board informed of potential costs and progress to meet the request. This does not preclude Board members from contacting Sandeep for clarification/information in the normal course of business. However, if the request should be shared with the full Board, Sandeep and/or the Board member can bring it forward to a Board meeting as to assure full transparency in the dissemination and flow of information with the policy makers of the District.