

NOVATO SANITARY DISTRICT

Board Meeting Minutes

Meeting Date: November 14, 2016

A regular meeting of the Board of Directors of the Novato Sanitary District was held at 6:00 p.m., Monday, November 14, 2016, at the District Office, 500 Davidson Street, Novato.

BOARD MEMBERS PRESENT: President Jerry Peters, Directors Carole Dillon-Knutson, Jean Mariani, William Long, and Brant Miller.

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

ALSO PRESENT: John Bailey, Project Manager, Veolia Water
John O'Hare, Pretreatment Programs Manager, Veolia Water
Brian Exberger, Assistant Project Manager, Veolia Water
Erik Brown, Technical Services Manager, Novato Sanitary District
Steve Krautheim, Field Services Manager, Novato Sanitary District
Laura Creamer, Finance Officer, Novato Sanitary District
Mitch Barker, Executive Vice President, PARS
Fred Hurst, Director, HighMark Capital Management

PLEDGE OF ALLEGIANCE:

AGENDA APPROVAL: The agenda was approved as presented.

PUBLIC COMMENT: None.

REVIEW OF MINUTES:

Consider approval of minutes of the October 24, 2016 meeting.

On motion of Director Mariani, seconded by Director Dillon-Knutson, and carried unanimously, the Board meeting minutes of October 24, 2016, were approved.

CONSENT CALENDAR:

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

- a. Approve Board disbursements in the amount of \$1,172.84, capital project disbursements in the amount of \$21,500.56, and regular disbursements in the amount of \$388,042.37.
- b. Receive Deposit Summary, October 2016.
- c. Receive 1st Quarter Investment Report, Fiscal Year (FY) 16-17.
- d. Receive Summary 1st Quarter Financial Report, FY 16-17.
- e. Approve Technical Services Manager's attendance at the American Water Works Association (AWWA) and Water Environment Federation (WEF) joint Utility Management 2017 training conference in Tampa, Florida.

On motion of Director Mariani, seconded by Director Long, and carried unanimously, the above listed Consent Calendar items were approved.

ADMINISTRATION/FINANCE:

- Receive memorandum/staff report titled "Establishment of Post-Employment Benefits Trust", and its recommendations summarized as Agenda Items 6.b.-6.f. The General Manager noted that Mitch Barker, Executive Vice President, Public Agency Retirement Services (PARS), and Fred Hurst, Director, HighMark Capital Management, were in attendance at the meeting.

The General Manager stated that the Board Finance Committee and the Board had previously received multiple staff and consultant presentations on the subject of Other Post-Employment Benefits (OPEB), and Net Pension Liability (NPL), under Government Accounting Standards Board (GASB) Statement 45 (OPEB), and GASB Statement 68 (NPL). He stated that the Committee and Board have also received presentations from representatives of the entities that typically provide investment and management/trust services on these liabilities for agencies such as the District, i.e. Public Agency Retirement Services (PARS) of Irvine, CA, and the CalPERS California Employers Retiree Benefit Trust Fund (CERBT) program. He noted that the most recent GASB 45 actuarial report for the District, as prepared by Mr. Franceschine of North Bay Pensions, showed that as of June 30, 2015, the District's unfunded liability was \$6.52 million, which includes the value of "subsidized premiums".

Further, the General Manager stated that CALPERS had established the District's total NPL as of June 30, 2016 at about \$3.5 million, which is up from about \$3.3 million a year ago, as CalPERS continues to refine its NPL calculation methodology. Based on its NPL calculations, CalPERS has established the District's pension Annual Required Contribution (ARC) amounts at \$177,747 for FY16-17, \$223,168 for FY17-18, and \$290,119 (projected) for FY18-19. CalPERS includes these amounts in the District's annual Employer Required Contribution (ERC) payments, and the District budgets them in its annual Operating Budget.

Until recently, the District's only option for addressing the NPL (other than the provisions of the ERC payments), was to commit additional funds over and above the ARC amounts included in the ERC payments to CalPERS. However, these additional funds would also: (a) be subject to the same market volatility risk as the CalPERS investment policy target of 7.5%, and (b) not be accessible to the District for other CalPERS pension expenses. He noted that for informational purposes, CalPERS investment performance for the last four years as listed on its website was 13.2% for FY12-13, 18.4% for FY13-14, 2.4% for FY14-15, and 0.6% for FY15-16.

He noted that more detailed information was available in the Board Packet as the memorandum/staff report titled "Establishment of Post-Employment Benefits Trust, Prefunding of Government Accounting Standards Board (GASB) Statements 45 and 68 Related Liabilities", and presented as Attachment 1 to Agenda Item 6.

The General Manager then provided an overview of three "prefunding" scenarios, as discussed in the memorandum/staff report. He stated that staff recommends the District implement the PARS offering of a combined OPEB/Pension Rate Stabilization Program, or

Post-Employment Benefits Trust program. It would require that the District establish an irrevocable trust and partially prefund it with an initial discretionary amount, with potential optional future prefunding payments at the Board's discretion. He noted that retiree benefits may be paid from the trust to the extent the trust is funded. He stated that the District currently projects an estimated unencumbered available cash balance of about \$2.0 million (as of July 1, 2017) in the Operating Fund, which could potentially provide the initial partial discretionary prefunding to a combined GASB 45/68 Post-Employment Benefits Trust Fund.

Referencing the Board Agenda Item Summary and the memorandum/staff report presented as Attachment 1 to Agenda Item 6, the General Manager summarized the following recommendations for Board approval:

- Fund the GASB 45 portion of the combined trust fund with an initial partial discretionary contribution of \$700,000, consistent with the amount that has "accumulated" for this purpose in the Operating Fund over the period of FY13-14 to FY16-17 (see Table 1 on page 37 of Board Agenda Packet). Also, for each future year, subject to Board adoption of authorized amounts in the Annual Budget for that year, contribute an amount up to the District's full GASB 45 Annual Required Contribution (ARC) for that year, as established by the District's periodic GASB 45 valuation reports.

- Utilize a further portion of the remaining unencumbered available cash balance in the Operating Fund to prefund the GASB 68 portion of the PARS combined trust fund with an initial partial discretionary contribution of \$200,000. Also, each future year, subject to Board adoption of authorized amounts in the Annual Budget for that year, contribute an amount of up to the full GASB 68 ARC amount for that year, as established by CalPERS' periodic valuations of the District's pension liability.

- Set up and implement a combined GASB 45/68 Post-Employment Benefits Trust Fund program to be managed by PARS, an outside trust services provider, to be funded as outlined above.

- The District has also historically adopted conservative investment strategies in its role as a good steward of the public funds that it oversees. Therefore, it is recommended that the District affirm and convey its "conservative" investment philosophy to the PARS team for investment strategies adopted and asset allocations made on the District's behalf. Further, it is recommended that the District inform the PARS team of a desired average long term investment performance goal of 3%-5% for its combined GASB 45/68 trust fund.

- Authorize the General Manager to serve as the District's combined Trust Plan Administrator by adopting the attached District Resolution No. 3104 - Adoption Of The Public Agencies Post-Employment Benefits Trust Administered by Public Agency Retirement Services (PARS). This is consistent with District practice where the General Manager currently serves as the District's Plan Administrator for the District's deferred compensation plan ("457 Plan") and defined contribution plan ("401a Plan").

Director Dillon-Knutson requested clarification on anticipated administrative fees for the PARS program vs. the CalPERS CERBT program. The General Manager explained that as discussed in the staff report, although the CERBT program has lower management fees (ten basis points versus about fifty basis points for PARS), the two entities appear to have comparable performance, net of fees, with PARS perhaps having a slight performance

edge. He also noted that, as discussed in the staff report, the asset allocation mix used by PARS to meet its performance objectives in its conservative strategy is more attuned to the District's historically conservative investment philosophy.

Director Dillon-Knutson asked about the investment strategy and how that strategy would be determined. The General Manager stated that, as discussed in the staff report, there are five different available strategies within PARS program, ranging from conservative to moderate to aggressive, and that any District investments should remain on the conservative side consistent with its conservative philosophy for investing public funds.

Director Miller questioned how the funding accounts would be set up within the proposed combined GASB 45/68 Post-Employment Benefits Trust fund. He asked if two separate sub-accounts would be established, or if one account would be established which would fund both liabilities. The General Manager replied that even though the program is a combined trust account, the District's GASB 45 and 68 obligations will be set up as separate sub-accounts within the combined trust and tracked individually for GASB reporting purposes.

Director Miller asked what the terms closed and open amortization periods referred to in the staff report meant within the current discussion. The General Manager responded that they are actuarial terms generally used in the calculation of liabilities such as the District's GASB 45 OPEB liabilities, and provided a brief overview of the terms.

Director Miller stated that he agrees with the prefunding recommendations, but questioned if it was necessary for the Board to instruct/direct the Plan Administrator (General Manager) on specific prefunding amounts. The General Manager explained that, as discussed in the staff report: (a) annual contributions to the proposed trust fund would have to be authorized by Board approval and adoption within each year's Annual Budget, (b) these annual contributions would be discretionary, and (c) the annual authorized contribution amounts could be up to the full Annual Required Contributions (or ARCs) for that year, as established by the periodic valuations of the District's GASB 45/68 liabilities. He noted that this process would give current and future District Boards of Directors the ability to adjust the range of authorized annual contribution amounts up to the full ARCs each year depending on the District's financial outlook for that year.

Director Miller questioned if annual expenses will be paid out of this fund or separately. The General Manager stated that the expenses can be paid either way, but would generally be from invested amounts.

Separately, the General Manager noted that the staff report also recommends that District contributions to the proposed trust fund be made on a periodic (monthly), dollar-cost-averaging basis, consistent with conservative, generally accepted long term investment practices, and in keeping with the District's conservative investment philosophy.

Director Long questioned if the contract with PARS had been reviewed by District Counsel. The General Manager responded that preliminary legal and administrative documents from PARS had been provided to District Counsel. He noted that pending Board approval, PARS will provide final legal and administrative documents, which will be reviewed by District Counsel prior to their execution and the set-up of a District trust program.

Director Long asked the PARS/Highmark Capital representatives present as to who is the trustee for PARS. They responded that the fiduciary responsibility and liability for the program is with U.S. Bank as the fund trustee.

Director Dillon Knutson stated that for the benefit of future Boards of Directors, the District's annual budgets could notate that the contributions to fund the District's GASB 45/68 Post-Employment Benefits Trust fund are discretionary.

On motion of Director Mariani, seconded by Director Dillon-Knutson, and carried unanimously, the Board adopted the following as one consolidated motion:

- Approve funding the GASB 45 (Other Post-Employment Benefits or OPEB) portion of the PARS combined trust fund with an initial partial discretionary contribution of \$700,000 from the unencumbered available cash balance in the Operating Fund; and each future year, subject to Board adoption of authorized amounts in the annual budget for that year, contribute an amount up to the full GASB 45 Annual Required Contribution (ARC) for that year, as established by the District's periodic GASB 45 valuation reports.

- Approve utilizing a further portion of the remaining unencumbered available cash balance in the Operating Fund to fund the GASB 68 (Net Pension Liability) portion of the combined trust fund with an initial partial discretionary contribution of \$200,000; and each future year, subject to Board adoption of authorized amounts in the annual budget for that year, contribute an amount up to the full GASB 68 ARC amount for that year, as established by CalPERS' periodic valuations of the District's GASB 68 pension liability.

- Authorize the General Manager to affirm the District's "conservative" investment philosophy to the PARS team for investment strategies adopted and asset allocations made on the District's behalf, and inform the PARS team of a desired average long term investment goal of 3%-5% for the District's combined GASB 45/68 trust fund.

- Adopt District Resolution No. 3104 – "Adoption Of The Public Agencies Post-Employment Benefits Trust Administered By Public Agency Retirement Services (PARS)", subject to minor changes, whereby the District adopts the PARS Public Agencies Post-Employment Benefits Trust, authorizes the General Manager to serve as the District's Combined Trust Plan Administrator, and subject to District Counsel review, authorizes him (as Plan Administrator) to execute all required legal and administrative documents on the District's behalf.

Mr. Barker and Mr. Hurst left the meeting at 6:50 p.m.

WASTEWATER OPERATIONS:

- Receive Wastewater Operations Report, October 2016. The General Manager introduced Veolia Project Manager John Bailey who provided an overview of the Treatment Facilities Monthly Operations Report for October. 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 October, and stated that safety

performance was excellent with a total of 2,351 accident-free days. He reported that the treatment facility transitioned from reclamation discharge to Bay discharge on October 26th.

The Project Manager discussed the period's key events and stated that Veolia participated in the North Bay Science Discovery Day educational outreach event in Santa Rosa on Saturday, October 29th. He noted that Liz Falejczyk, Brian Exberger, John O'Hare, and himself worked at the booth.

Field Services Manager Steve Krautheim summarized the Collection System Operations report for October 2016. He stated that the Collections department cleaned 34,913 lineal feet of sewers and conducted smoke testing of approximately 23,053 feet of sewer mains in the Loma Verde area. He provided a further overview of operational and maintenance activities, and stated that there were no lost time accidents in October for a total of 2,059 accident-free days. He stated that there was one Category I sanitary sewer overflow (SSO) in October, resulting in a discharge of approximately 7,900 gallons. The stoppage was attributed to an accumulation of grease and wipes. The Field Services Manager reported that "What not to Flush" informational packets will be distributed to residents in the upstream vicinity of the blockage location.

The Field Services Manager then summarized the Reclamation Facilities report for October 2016. He stated the rancher installed District furnished impact sprinklers in a test area on Site 7. He noted that irrigation was disabled at all sites in October due to early rains. He also stated that about 66.2 million gallons (MG) of treated water was used for irrigation, and that approximately 124.14 MG was delivered from the Novato Treatment Plant to the storage ponds.

BOARD MEMBER REPORTS AND REQUESTS:

Director Miller commented on his attendance at the North Bay Watershed Association meeting which was held on November 4th at the District office. He discussed a presentation that was given by Mr. Bruce Wolfe, Executive Officer, San Francisco Bay Regional Water Quality Control Board.

GENERAL MANAGER'S REPORT AND ANNOUNCEMENTS:

The General Manager reported that the North Bay Water Reuse Authority (NBWRA) Technical Advisory Committee (TAC) meeting was held at the District office on November 14, 2016. The meeting was facilitated by NBWRA's Outreach Consultant, Mark Millan of Data Instincts. NBWRA Chair David Rabbit attended for about 2/3rds of the meeting. The main topic of discussion was in regards to cost-sharing of the Phase 2 EIR/EIS work and NBWRA's FY2016/17 budget. Program Manager Chuck Weir and Mark Millan will work to further refine budget numbers, and a TAC conference call is planned to reach agreement between the NBWRA agencies prior to the NBWRA Board meeting of December 19th.

The General Manager announced the following:

- He will be on vacation November 17th through November 28th, but will have access to email and urgent phone calls.

- A Finance Committee meeting will be scheduled for Monday, December 5th at 3:00 p.m. The Committee will receive and review the draft FY15/16 financial audit by Maze & Associates, the District's independent outside auditor.
- The District will be closed on Thursday, November 23rd and Friday, November 24th, both District holidays.
- The next Board meeting is December 12th at 6:00 p.m.
- As in prior years, there are no Board meetings in the second half of November and December.

ADJOURNMENT: There being no further business to come before the Board, President Peters adjourned the meeting at 7:36 p.m.

Respectfully submitted,

Sandeep Karkal
Secretary

Julie Hoover, Recording