



**1. CALL TO ORDER**

Chair George called the meeting of the Executive Committee to order at 8:32 a.m. Individuals in attendance are listed below:

Executive Committee Members

Bob Churchill, Citrus Heights Water District  
Ron Greenwood, Carmichael Water District  
Debra Sedwick, Del Paso Manor Water District  
Bill George, El Dorado Irrigation District  
Kerry Schmitz, Sacramento County Water Agency  
Rob Roscoe, Sacramento Suburban Water District  
Pam Tobin, San Juan Water District

Staff Members

John Woodling; Rob Swartz; Nancy Marrier, Linda Higgins, Cecilia Partridge and Monica Garcia

Others in Attendance

Dan Sherry. Nicole Krotoski participated via conference phone.

**2. PUBLIC COMMENT**

None

**3. CONSENT CALENDAR**

The draft minutes from the Executive Committee meeting held August 17, 2011 and the draft minutes from the Special Executive Committee meeting held August 31, 2011.

Mr. Woodling commented that there are changes to the minutes. On the August 17, 2011 minutes, agenda item #7 on the first line change it to read "...that with the 5<sup>th</sup> draft comment period....", the fourth paragraph, item #10, change the reference to the board to "State Water Resources Control Board". On the August 31, 2011 minutes, agenda item #5, show the roll call vote 5 yes to 3 no, and under the Director's comments, Ken Payne's comments in the fifth paragraph, delete "for annotation."

Motion/Second/Carried (M/S/C) Mr. Greenwood moved, with a second by Mr. Roscoe, to approve the consent calendar as amended.

**4. CALIFORNIA EMPLOYER'S RETIREMENT BENEFIT TRUST ("CERBT") STRATEGIC DISCOUNT OPTIONS FOR CALCULATING OTHER POST-EMPLOYMENT BENEFITS ("OPEB") LIABILITES**

Mr. Woodling said that at the July 27, and August 17, 2011 Executive Committee Meetings, staff discussed strategic investment changes that California Public Employer's Retirement System (CalPERS) is implementing with the CERBT assets. These strategic investment changes are resulting in employers having three investment strategy choices in deploying pre-funded OPEB assets. Each distinct strategy results in a different discount rate to calculate OPEB liabilities. As discussed at the August 17, 2011 meeting, RWA is not making an investment decision as the investment choices for each strategy have already been determined by CalPERS. However, RWA is deciding which strategic investment choice and corresponding discount rate best suits the needs of the RWA's OPEB trust. This choice has future cash flow impact that will need to be considered in the annual budget process.

Nicole Krotoski gave a presentation via conference phone. She summarized the three investment strategies expected returns and risk assuming a 50 year investment horizon, noting that CalPERS does not guarantee the rates of return. Each strategy calculates the expected OPEB liability and annual required contributions for RWA based upon the expected return assumptions. Since the inception of CERBT, a maximum discount return rate of 7.75% was used and allowed by the Governmental Accounting Standards Board. RWA funded a significant portion of the OPEB liability in June 2009 using the 7.75% discount rate. The changes in these new strategies will increase the liability amounts and subsequent annual contributions because a lower rate of return is now assumed under each of the three strategies.

Ms. Krotoski noted that CalPERS will automatically invest employers' assets in Strategy 1 unless employers request otherwise. New asset deposit will be invested immediately in the new strategy. Old assets are more systematically deployed to the new strategy due the market volatility and declines since June 30, 2011.

Ms. Krotoski provided reasons to invest in strategy 1:

- 1) Strategy 1 is most similar to the previous CalPERS CERBT investment strategy and now does reflect a lower discount rate than previously used (i.e. a more conservative investment target).

- 2) CalPERS added to the investment categories (inflation linked bonds and commodities) so as to improve asset diversification and lower volatility of the expected returns during inflation.
- 3) The OPEB liability is required to be measured every two years. This re-measurement provides an opportunity for RWA to stay on top of its liability and potentially choose to pay additional funds if an unfunded actuarial accrued liability does result due to poor market performance.
- 4) CalPERS recently implemented new actuarial information in regards to expected retirement age (lowered it) and life expectancy (increased it). These two factors also have increased the calculated OPEB liability and added an element of reality into the calculation as well.
- 5) RWA's trust fund assets currently exceed the OPEB liabilities due to the timing of the June 30, 2009 deposit made at the bottom of the previous investment cycle.
- 6) Ms. Krotoski corrected the staff report information indicating that under the "expected" investment return results analysis for June 30, 2011, the liability **would now** exceed assets due to updated information regarding new staff and health plan data.

Bickmore Risk Services (BRS), RWA's current actuary, has suggested rounding the discounted rates instead of using the discounted rates as outlined by CalPERS. The discount rates can imply a precision to the discount rate that will not be realized. Following actuarial standards of practice, BRS suggested rounding the asset strategy discount rates down as follows:

- 1) Strategy 1: 7.5% versus 7.61%
- 2) Strategy 2: 7.0% versus 7.06%
- 3) Strategy 3: 6.25% versus 6.36%

At the July 27, 2011 Executive Committee Meeting, members received a two page illustration of the liabilities and annual required contributions using the above rounded discount rates which was also included in the Executive Committee packet. The additional actuarial adjustment is called the Margin for Adverse Deviation (MFAD). The MFAD is a downward adjustment of the discount rate and acceptable actuarial standards of practice. By rounding down the discount rate, it will result in calculating higher liabilities and annual required contributions which may result in some overfunding of the OPEB liabilities over the long-term. Overfunding could help mitigate poor investment performance.

While rounding the discount rates does have some benefit, there is no assurance that these discount rates are any more representative of expected results. Additionally, further research indicated that the discount rates on the CalPERS website for CERBT are even lower than those listed above because

the website lists rates over a 20 year investment cycle versus the liability calculation over a 50 year cycle. Essentially, CalPERS is anticipating lower rates of returns over the next 20 years than over the next 50 years. Ms. Krotoski stated that an MFAD is an actuarial sound practice and asked whether RWA wants to implement an MFAD. Alternatives to applying a lower discount rate could include funding additional money than is required into the OPEB while still choosing strategy 1. For example, instead of amortizing the current asset (which reduces cash flow requirements), RWA could pay the full annual required contribution.

Mr. Woodling said that if RWA chooses strategy 1 without implementing the MFAD, BRS will then re-run the liability and asset values to determine the required annual contribution and the unfunded actuarial accrued liability, if any. There are some administrative procedures RWA will need to complete with CalPERS. The OPEB funding policy will need to be modified to reflect RWA's choice of strategy 1. Mr. Woodling said that after discussions that he and Ms. Krotoski have had with a number of people the recommendation would be strategy 1 with the adjustment recommended by the actuary.

There was discussion regarding the difference in the strategies offered and the expected returns and possible risks. Mr. Roscoe commented that RWA is not a normal organization and it would be beneficial to overfund rather than underfund employee retirement obligations. Ms. Tobin commented that we have the option to go with strategy 1 and pay the entire normal cost instead of making annual payments. Mr. Woodling said that we will be working with this every two years where the numbers and our options are going to change.

M/S/C Mr. Roscoe moved, with a second by Ms. Tobin, to recommend to the RWA Board to make an active choice of an asset allocation strategy recommending that RWA remain with investment strategy number 1 and direct our actuary to use a 7.25% rate of return.

## **5. COMPENSATION SURVEY PURSUANT TO RWA POLICY 400.2**

Policy 400.2, Employee Compensation, states RWA's intent "to provide employee compensation that is fair and equitable and that is comparable...with that of similar water and public agencies regionally." Further, the policy calls for the Executive Committee to conduct a compensation survey at least every five years. RWA last completed a compensation survey in 2007. There was discussion whether a salary survey in 2012 would be advisable.

Mr. Roscoe suggested collaboration with other agencies/districts for a regional salary survey. This would reduce the cost of the salary survey for everyone while producing useable data. Direction was given to the Executive Director to see if there is interest in a regional salary survey in 2012 or 2013.

M/S/C Ms. Tobin moved, with a second from Mr. Roscoe, to direct staff with regard to pursuing a compensation study to amend the policy to include the wording that the Executive Committee can use their discretion to waive the five year commitment.

## **6. WATER EFFICIENCY PROGRAM UPDATE**

Linda Yager, RWA Project Manager, gave a PowerPoint presentation highlighting the Blue Thumb Campaign, Green Gardener Program, updated plant database and RWA member outreach. The top priority of the Water Efficiency Program (WEP) for FY12 is the review of current and planned future conservation activities discussed in the Urban Water Management Plans (UWMPs) and 2009-10 California Urban Water Conservation Council (CUWCC) Best Management Practice (BMP) reports. This review will enable RWA to plan for the next 3-5 years of the RWEF. The information collected will help RWA understand the current baseline gallons per capita per day (gpcd) usage for each member's service area, and which conservation BMP's will be emphasized to meet Senate Bill (SB) X7 7 targets. RWA staff has received a majority of RWA members 2010 UWMP's from DWR and is working with Water Forum staff on an outline of the summary reports needed for future planning. Staff anticipates to present findings and draft recommendations for the WEP by February 2012.

RWA will be hosting the December 14, 2011 plenary meeting of the CUWCC in the Sacramento area. The Plenary will be another opportunity for RWA and its members to discuss our commitment to water efficiency in a statewide forum. RWA staff encourages General Managers and Board members to attend with their Conservation Managers.

Ms. Yager reported that after 15 months of work, the CUWCC Group 1 Regional Voting Structure Proposal passed on September 16, 2011 with a vote of 78-Yes and 3-No. The new voting structure splits the State into 3 regions and increases the Group 1 Board to nine seats. The three regions are Coastal, Inland and South. The Board seats are allocated based upon the number of Signatory Members and Retail Signatory Member Population within a region. The City of Roseville currently occupies the Inland board seat, until December 2012.

## **7. NOVEMBER 10, 2011 RWA BOARD MEETING AGENDA**

Mr. Woodling said that under agenda item #4 an additional item will be added as 4.c. to include amendments to policy 400.2 that was discussed under agenda item #5 previously. On agenda item #6 it has yet to be determined who will give the Delta Update presentation.

Mr. Woodling clarified agenda Item #5 saying that the result of the action item for the Executive Director contract amendment at the September RWA Board meeting was an 8 to 6 roll call vote. With RWA's 20 members, 11 votes are required to pass an action item. There was a motion and vote to bring this back to the RWA Board at the next board meeting.

M/S/C Mr. Churchill moved, with a second by Ms. Tobin, to approve the November 10, 2011 proposed RWA Board Meeting agenda with the suggested amendment.

## **8. EXECUTIVE DIRECTOR'S REPORT**

Mr. Woodling reported that only a relatively small handful of bills we were tracking this year passed the legislature. AB 134 (Dickinson) that provides the opportunity for Sacramento Regional County Sanitation District to apply for water rights equivalent to the volume of their wastewater discharge has been signed by Governor Brown. In addition, the following bills are enrolled. The Governor has until October 9<sup>th</sup> to sign or veto legislation.

AB 275 would authorize residential, commercial, and governmental landowners to install, maintain, and operate rain barrel systems and rainwater capture systems provided that the systems comply with specified requirements. AB 359 would require a map identifying the recharge areas, as defined, for the groundwater basin to be included in a groundwater management plan for purposes of the state funding requirements. The bill would require the local agency to provide the map of the recharge areas to local planning agencies and notify DWR and other interested persons when a map is submitted to those local planning agencies. SB 263 would authorize DWR to provide well completion reports to licensed professionals and academic researchers for specified purposes. The well logs will remain confidential for other purposes. SB 834 would require an integrated regional water management plan to identify the manner in which the plan furthers a specified state policy concerning reducing reliance on the Sacramento-San Joaquin Delta for water supply and improving regional self-reliance for water, if the region depends on water from the Delta watershed.

Mr. Woodling said that the Delta Stewardship Council held a series of workshops on specific topics related to the fifth staff draft of the Delta Plan. RWA Staff attended the workshop on financing. In addition, staff and some RWA members attended the Council meeting on September 22 and 23, and offered public comment on the draft plan. The Council plans to release the draft EIR near the end of September. Comments on the fifth draft Delta Plan are due September 30. RWA submitted the attached comment letter.

Mr. Woodling said that the RWA Public Affairs Program is gaining momentum. RWA staff and consultant developed a set of principles for formation of a regional coalition to protect our interests as a Delta solution moves forward. Several entities have agreed to participate, including Sacramento City Council, Folsom City Council, PCWA, and Metro Chamber. Presentations to solicit participation from a number of other organizations are scheduled. Mr. Woodling met with a number of business and labor interests on September 22<sup>nd</sup> to discuss the participation of the business community. Mr. Woodling will present a Delta update

to a joint meeting of the Citrus Heights, Carmichael, and Del Paso Manor Water District Boards. RWA staff and consultants developed an op-ed article, which several member agencies have modified and are seeking to have placed in local newspapers. Mr. Woodling is tentatively scheduled to meet with the Bee's editorial board next week with a group from ACWA.

Mr. Woodling reported that the Water Forum staff and consultants have completed the analysis of modeling results to identify the water supply impacts of implementing the lower American River flow standard. Participants at the September 14<sup>th</sup> Water Caucus meeting expressed a desire to have a closed water caucus meeting prior to the beginning of cross-caucus discussion. The next Water Caucus meeting is scheduled for October 13, 2011.

RWA received a commitment letter from DWR for \$16 million from Proposition 84 for implementation on the 15 projects submitted in an IRWM Implementation Grant application. Staff held a kickoff meeting for the project proponents on September 21, 2011. SAFCA, the City of Sacramento and Placer County Flood Control submitted applications for the Stormwater Flood Management Project. SAFCA and the City of Sacramento were successful in getting recommendations for grants based on the IRWM Plan. Within the course of the year the plan that we put together has brought in \$23 million to the region.

Mr. Swartz gave a brief presentation on the problems associated with DIR's (Department of Industrial Relations) labor compliance program. All of the grant activities have to be accomplished under a certified labor compliance program through DIR. In 2009 a law was passed directing DIR to build their own compliance unit called the CMU (Compliance Monitoring Unit). DIR is developing this unit to become active on January 1, 2012. There are questions on the charges and what constitutes the total project costs as well as tracking the third parties. It's unknown how this program will be facilitated. Prop 50 and Prop 84 will be affected by this program unless there is currently an approved plan to operate under. Mr. Roscoe suggested that we recommend to DIR and DWR that a workable solution be found. This may be an opportunity to build relationships with our local officials and request their assistance to work towards a solution for a path to compliance.

## **9. DIRECTORS' COMMENTS**

Mr. Woodling welcomed Ms. Marrier back after being out for medical reasons. He also welcomed Debra Sedwick as the newest member of the RWA Executive Committee.

Debra Sedwick thanked John Woodling for his presentation at the Del Paso Water District board meeting. She said it was well received.

Rob Roscoe said that regarding the Delta Principles they're looking for everyone to adopt the suggested RWA resolution or something similar and work with public outreach to get the message out.

Ron Greenwood said his agency is working on getting our Delta Principles message out.

**ADJOURNMENT**

With no further business to come before the Board, Chair George adjourned the meeting at 10:21 a.m.

By:

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Chairperson

Attest:

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Nancy Marrier, Board Secretary / Treasurer