



## **SANTA FE IRRIGATION DISTRICT BOARD OF DIRECTORS SPECIAL MEETING**

Santa Fe Irrigation District Board Room  
5920 Linea del Cielo, Rancho Santa Fe, California 92067

**TUESDAY, MAY 29, 2018  
8:30 a.m.**

### **CALL MEETING TO ORDER**

### **PLEDGE OF ALLEGIANCE – Director Petree**

### **ITEMS TO BE ADDED TO THE AGENDA**

*(Government Code Section 54956.5)*

### **ORAL COMMUNICATIONS**

*Opportunity for members of the public to address the Board (Government Code Section 54954.3)*

### **Public Comment Procedures for Board Workshop Agenda Items on Cost of Service and Water Rates**

- *The time limit for individual speakers is three (3) minutes.*
- *If two individuals yield their time to a third individual, the third individual may speak for up to ten (10) minutes. Individuals may yield their time to another speaker by submitting a speaker card identifying the person speaking on their behalf. No other yielding of time may occur.*
- *A person desiring to make an organized group presentation may utilize written materials if he or she submits the materials to the District Clerk by e-mail or USB drive at least 24 hours prior to the date and time of the meeting and will be permitted up to twenty (20) minutes for their presentation.*
- *The Board may receive additional comments from individuals or organized groups following the presentation by staff. Individuals are asked to observe a time limit of two (2) minutes, and organized groups are limited to six (6) minutes. Members of the public are asked to submit an additional speaker's card indicating a desire to speak or yielding time to an organized group for such additional comments.*
- *The Board Chair may, in his or her absolute discretion, extend or shorten the times described above or otherwise adjust the above procedures to accommodate numerous speakers. A decision of the Chair to do so in one instance shall not be deemed a waiver of these procedures as to any other instance or matter.*

## **DISCUSSION**

1. Board of Directors' Planning Workshop
  - A. Review of CalPERS Unfunded Actuarial Liability Funding Strategies (pages 3-12)
  - B. Discussion of Alternative Water Rate Structures (pages 13-14)
2. Review and Discuss Revised Board of Directors' Planning Workshop Agenda Items (pages 15-17)

## **DIRECTORS' COMMENTS**

*Director's comments are comments by Directors concerning District business, which may be of interest to the Board. They are placed on the Agenda to enable the individual Board members to convey information to the Board and the public. No action is to be taken on comments made by the Board members.*

3. Directors' Comments

## **ADJOURNMENT**

*Assistance for the disabled: If you are disabled in any way and need accommodation to participate in the Board meeting, please call the Board Secretary at (858) 756-2424 for assistance at least three (3) working days prior to the meeting so the necessary arrangements can be made.*

DATE: May 29, 2018  
TO: Board of Directors  
FROM: General Manager  
SUBJECT: **ITEM 1A: Review of CalPERS Unfunded Actuarial Liability Funding Strategies**

---

**RECOMMENDATION:**

It is the staff recommendation that the Board of Directors:

1. Review and discuss alternative funding strategies for the CalPERS Unfunded Actuarial Liability (UAL); and
2. Provide feedback to staff regarding further action regarding alternative funding strategies for the CalPERS UAL; and
3. Take other action as appropriate.

**DISCUSSION:**

As the District proceeds with the 2018 Cost of Service Study, the Board of Directors has been receiving and considering foundational information related to the rate setting process and financial planning strategies. At the March 29, 2018 Special Board Meeting, staff introduced two concepts for future consideration and potential inclusion for sensitivity analysis in the water rate model. The two financial concepts presented by staff are:

- 1) Consideration of Capital Financing (Level of Debt vs. PayGo funding for infrastructure investments).
- 2) Consideration of alternative funding strategies for the CalPERS UAL to reduce overall cost to District.

Staff has been working with Fieldman Rolapp and Associates (FRA) on these matters and today's presentation will focus on and provide further detail on alternatives related to reducing the long term fiscal impact of the CalPERS UAL. FRA has identified four UAL alternative funding strategies for the District to consider with potential \$6-\$9.7M in UAL savings, or Net Present Value (NPV) savings of approximately \$2.8M. A copy of the FRA presentation is included as Attachment A for your review.

Staff and FRA will be prepared to discuss these alternatives and respond to questions. It is important to note that three of the four alternatives require the use of existing funds (reserves) to prepay a portion of the total long term liability. How best to utilize reserves funds is emerging as

a key policy issue in the financial planning work staff is conducting. Consequently, if the Board desires, it is anticipated that one or more of these alternatives would be incorporated into the water rate model to determine potential rate implications associated with specific alternatives.

**BACKGROUND:**

This Special Meeting of the Board of Directors has been convened for the purpose of holding a workshop on the topics of CalPERS UAL Funding Strategies and Alternative Rate Structures. The workshop will be held as a public meeting and the public will have the opportunity to provide comment and address the Board. This workshop is the fourth in a series of Special Meetings that started in 2018 and are meetings are calendared through the fall (October 2018).

Earlier this year, the Board adopted a public presentation policy to be utilized only during Special Board meetings where Cost of Service and Water Rates are being considered/discussed. This policy is stated on the Special Board meeting agendas, such as this one, wherein these items are agendized. Accordingly, staff coordinates with members of the public that might wish to provide a group presentation.

Staff does not anticipate any group presentations at the May 29<sup>th</sup> Special Meeting.

**COMMITTEE ACTION:**

This item was not considered at the Committee level.

**FISCAL IMPACT:**

There is no direct fiscal impact associated with this agenda item.

Attachment A: FRA Presentation – UAL Funding Strategies

Prepared by: Michael J. Bardin, General Manager

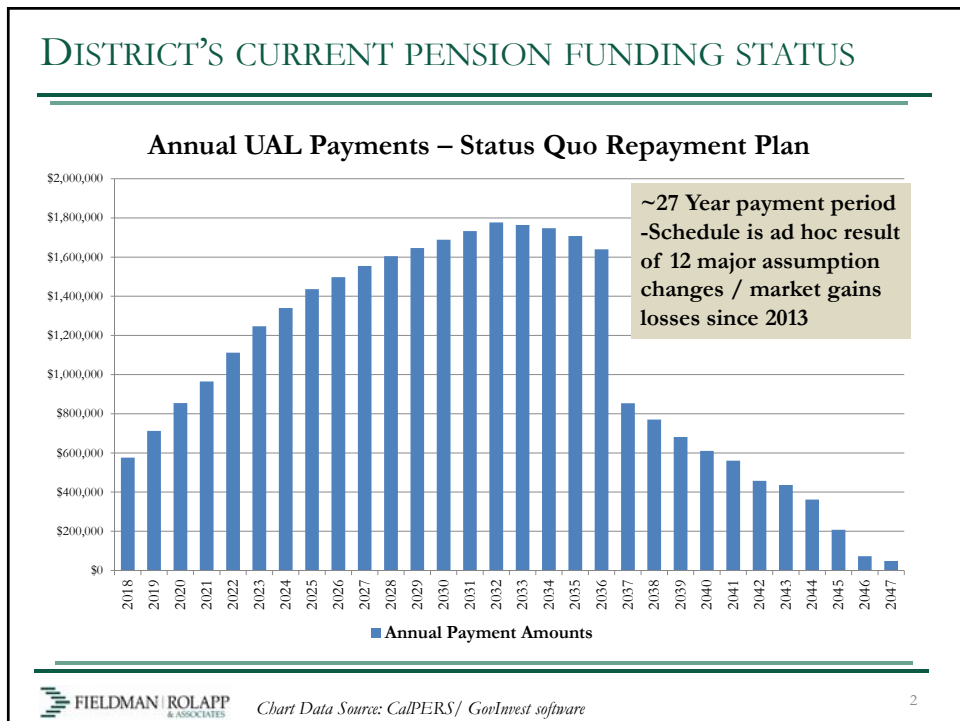




## Unfunded Pension Liability Accelerated Funding Options

**May 29, 2018**

131253



## BACKGROUND / OBJECTIVES

- Staff has identified \$4 million to be available in reserves above policy levels
  - ✓ Reduce net pension liability
  - ✓ Generate significant potential pension cost savings
- Reserves currently earning ~2.00%\*
  - ✓ Earnings long-term / historic outlook: 2.50%\*
- Objectives:
  - ✓ Reduce unfunded pension liabilities
  - ✓ Achieve higher economic benefit of cash reserves
  - ✓ Achieve annual pension cost savings

## PENSION UAL FUNDING OPTIONS

- “Accelerated Funding” in general means paying down the UAL sooner than the CalPERS standard payment schedule:
- **Fresh Start**
  - ✓ CalPERS will make a new, official UAL payment schedule of higher payments over a shorter term, e.g. 10 or 15 years
  - ✓ Once directed, new payment schedule cannot be changed back or altered, other than to further shorten payment period
- **Advance Funding Plan (AFP)**
  - ✓ Typically adopted periodically as a “plan”
  - ✓ Discretionary payments made annually (e.g. \$1 million per year)
  - ✓ CalPERS applies funds to reduce UAL and future payment schedule\*

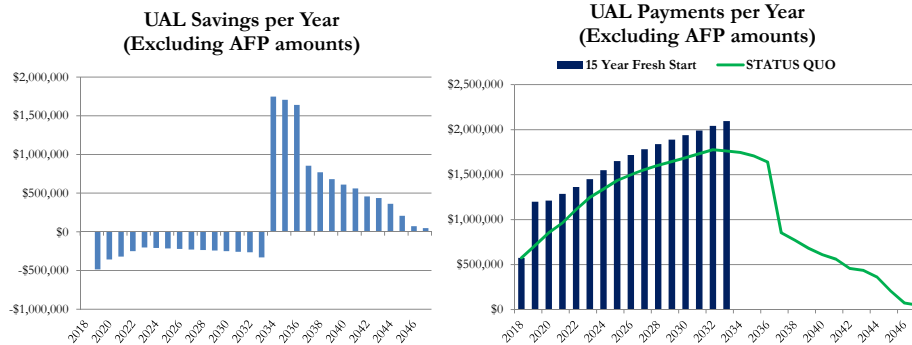
## PENSION UAL ADVANCE FUNDING OPTIONS

### Options Analyzed:

1. 15 Year Fresh Start
2. \$4 million one-time Advance Funding Plan
3. \$2 million per year Advance Funding Plan (2 years)
4. \$1 million per year Advance Funding Plan (4 years)

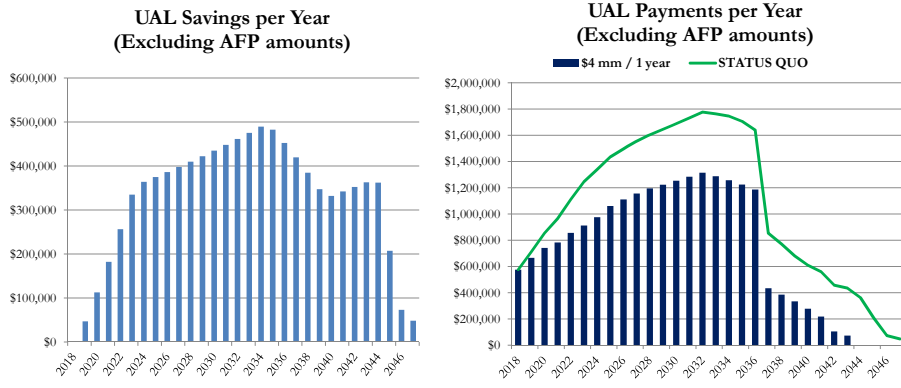
## 15 YEAR FRESH START (OPTION #1)

- Existing payment schedule compressed to 15 Years
- Savings of \$6.08 million (\$2.87 net present value)
- Payments increase in near-term and lacks flexibility – once adopted, cannot revert to longer period



## \$4 MILLION 1-TIME ADVANCE FUNDING (OPTION #2)

- Long-term savings of \$9.76 million total and \$2.83 million NPV
- Annual cost savings ramp up in proportion to UAL payments



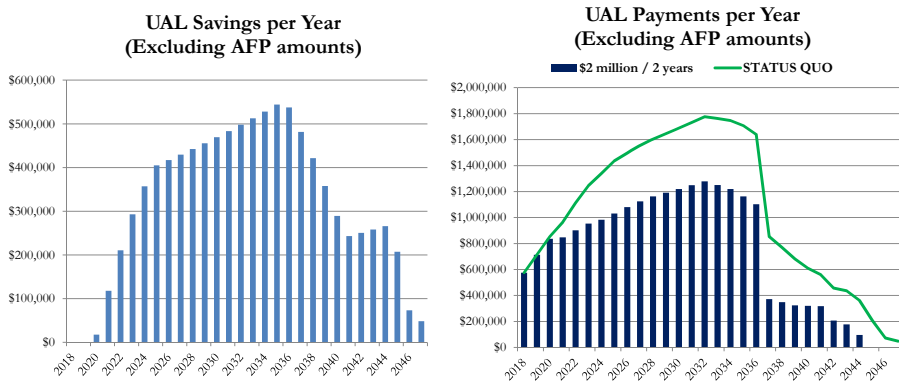
FIELDMAN ROLAPP & ASSOCIATES

\*Chart information per GovInvest. All figures rounded / approximate. NPV savings based on 2.5% discount rate.

7

## \$2 MILLION / 2 YEARS ADVANCE FUNDING (OPTION #3)

- Long-term savings of \$9.61 million total and \$2.78 million NPV
- Annual cost savings ramp up in proportion to UAL payments



FIELDMAN ROLAPP & ASSOCIATES

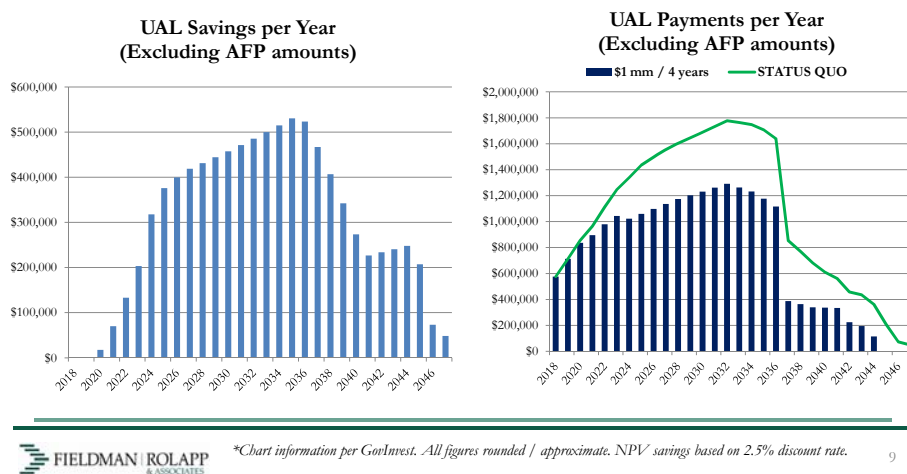
\*Chart information per GovInvest. All figures rounded / approximate. NPV savings based on 2.5% discount rate.

8



## \$1 MILLION / 4 YEARS ADVANCE FUNDING (OPTION #4)

- Long-term savings of \$9.06 million total and \$2.44 million NPV
- Annual cost savings ramp up in proportion to UAL payments



## OTHER CONSIDERATIONS

- All Options involve taking on additional risk of increased near-term exposure to CalPERS investment returns
  - ✓ Actual savings realized will vary due to market returns, potential future changes in CalPERS assumptions and UAL policies
- Advance Funding Plans allow flexibility; Fresh Start cannot be reversed
- Accelerated funding demonstrates strong, proactive financial management to rating agencies

## SUMMARY OF OPTIONS

#	Option Description	Savings Potential*	Pro	Con
1	<b>15 Year Fresh Start</b>	<ul style="list-style-type: none"> <li>UAL savings of \$6.08 million</li> <li>NPV savings of <b>\$2.87 million</b></li> </ul>	<ul style="list-style-type: none"> <li>Fastest UAL repayment term</li> <li>Highest NPV savings</li> </ul>	<ul style="list-style-type: none"> <li>Lack of future flexibility</li> <li>Near-term payment increases</li> <li>Savings are “back-loaded”</li> </ul>
2	<b>AFP - \$4 million (1 time)</b>	<ul style="list-style-type: none"> <li>UAL savings of \$9.76 million</li> <li>NPV savings of <b>\$2.83 million</b></li> </ul>	<ul style="list-style-type: none"> <li>Near-term savings gradually ramp up</li> <li>Substantially same NPV savings as Option 1</li> </ul>	<ul style="list-style-type: none"> <li>Near-term savings minimal</li> <li>Additional market exposure</li> </ul>
3	<b>AFP - \$2 million (2 years)</b>	<ul style="list-style-type: none"> <li>Total savings of \$9.61 million</li> <li>NPV savings of <b>\$2.78</b></li> </ul>	<ul style="list-style-type: none"> <li>Near-term savings gradually ramp up</li> <li>Ability to adjust plan in future</li> </ul>	<ul style="list-style-type: none"> <li>Near-term savings minimal</li> <li>Lower NPV savings than 2</li> <li>Additional market exposure</li> </ul>
4	<b>AFP - \$1 million (4 years)</b>	<ul style="list-style-type: none"> <li>UAL savings of \$9.06 million</li> <li>NPV savings of <b>\$2.44</b></li> </ul>	<ul style="list-style-type: none"> <li>Less near-term market exposure</li> <li>Ability to adjust plan in future</li> </ul>	<ul style="list-style-type: none"> <li>Lowest NPV savings</li> </ul>

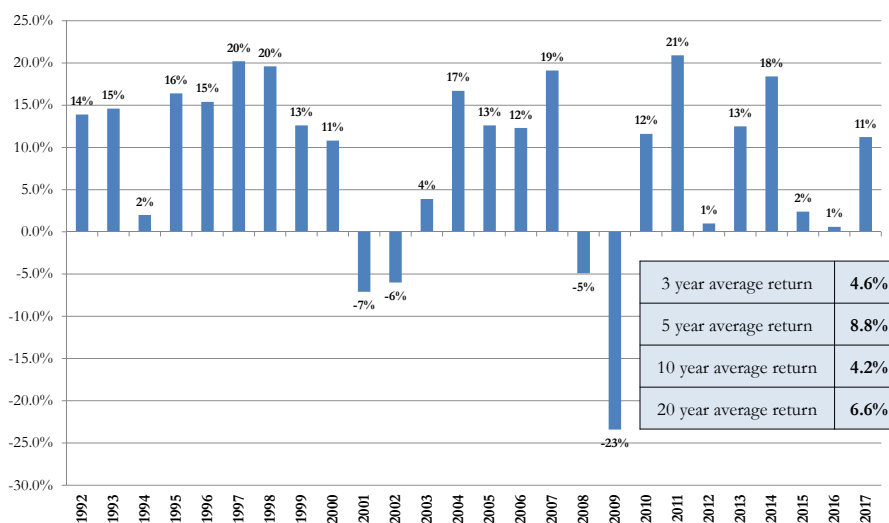


## APPENDIX / ADDITIONAL INFORMATION

## TERMINOLOGY / 101

- **UAL – Unfunded Accrued Liability.** Difference in total District pension financial assets with CalPERS versus present value of future pension benefits accrued and owed in future by District. Typically result of changes in CalPERS actuarial assumptions and / or adverse investment returns.
- **UAL Amortization or Payment Schedule.** If a public agency has a UAL, CalPERS produces a payment schedule requiring annual payments to reduce the UAL to zero over time (typically 20-30 years). Payment schedules lag actual UAL.\*
- **UAL Amounts Reported with lag\*.** Most current official value from CalPERS came out fall of 2017, reporting a value as of June 30, 2016, and updated UAL projections already differ.

## CALPERS HISTORIC RETURNS DATA



## PRESENTATION DISCLAIMERS

---

- Information regarding the District's existing unfunded actuarial liability contained herein is based on the District's June 30, 2016 valuation report as of August, 2017 from CalPERS
- Scenarios and savings were generated as per GovInvest financial software / website, a customized pension analysis service the District subscribes to
- Certain assumptions, including future rate of return changes and CalPERS investment experience for FY2017, have been incorporated by GovInvest which were not reflected in the District's August 2017 valuation report

DATE: May 29, 2018  
TO: Board of Directors  
FROM: General Manager  
SUBJECT: **ITEM 1B: Discussion of Alternative Water Rate Structures**

---

### **RECOMMENDATION:**

It is the Staff recommendation that the Board of Directors:

1. Review and discuss alternative water rate structures; and
2. Take other action as appropriate.

### **DISCUSSION:**

At the April 25, 2018 Special Board Meeting, a Board of Directors Planning Workshop was held. The meeting agenda included one item, a presentation from the Districts independent water rate consultant, Carollo Engineers (Carollo). The presentation was titled *Introduction to Cost of Service and Water Rate Design* and provided the Board of Directors with an overview of the water rate setting process.

This agenda item today is intended to build upon the earlier, broader cost of service presentation. Today we will be focusing on alternative water rate structures and how they might be applicable to the Santa Fe Irrigation District. Mr. Pierce Rossum of Carollo will be in attendance at the meeting and will provide a presentation. Staff and Carollo will be prepared to discuss alternative rate structures and respond to questions.

### **BACKGROUND**

This Special Meeting of the Board of Directors has been convened for the purpose of holding a workshop on the topics of CalPERS UAL Funding Strategies and Alternative Rate Structures. The workshop will be held as a public meeting and the public will have the opportunity to provide comment and address the Board. This workshop is the fourth in a series of Special Meetings that started in 2018 and are meetings are calendared through the fall (October 2018).

Earlier this year, the Board adopted a public presentation policy to be utilized only during Special Board meetings where Cost of Service and Water Rates are being considered/discussed. This policy is stated on the Special Board meeting agendas, such as this one, wherein these items are agendaized. Accordingly, staff coordinates with members of the public that might wish to provide a group presentation.

Staff does not anticipate any group presentations at the May 29<sup>th</sup> Special Meeting.

**COMMITTEE ACTION:**

This item was not considered at the Committee level.

**FISCAL IMPACT:**

There is no direct fiscal impact associated with this agenda item.

Prepared by: Michael J. Bardin, General Manager

DATE: May 29, 2018  
TO: Board of Directors  
FROM: General Manager  
SUBJECT: **Review and Discuss Revised Board of Directors' Planning Workshop Agenda Items**

---

**RECOMMENDATION:**

It is the Staff recommendation that the Board of Directors:

1. Review the revised Board of Directors' Planning Workshop Agenda Items; and
2. Discuss and take other action as appropriate.

**DISCUSSION:**

These Special Meetings of the Board of Directors were proposed earlier in 2018 for the purpose of holding workshops to discuss topics which could impact assumptions to be used in the current Cost of Service Study (Study). After the April Special Board meeting and additional discussions with the Cost of Service Study Consultant, Carollo Engineers (Carollo), the Study timeline and dates for Board consideration of activities necessary to develop the Study has been refined.

The revised Special Board Meeting Schedule is attached for your review as Attachment A. The dates for the Special Meetings have not been changed, however the topics have been refined for the June and August workshops. The September and October workshop topics are yet to be finalized.

In addition to Special Meetings, staff anticipates Study related topics will likely be considered by the Board of Directors at their regular meetings as noted below:

July 19, 2018	Discussion of Rate Structure and Customer Impacts
September 20, 2018	Review Draft Study and Proposition 218 Notice

Consideration of the Draft Study and review of the Proposition 218 notice at the regular September Board meeting is necessary because the Special Board meeting date of September 26, 2018 does not permit adequate time to print the Proposition 218 notice and prepare for mailing by October 1, 2018. This date provides the required 45 day notice for a Public Hearing, tentatively scheduled for November 15, 2018 for implementation of new water rates on January 1, 2019.

**COMMITTEE ACTION:**

This specific item was not reviewed at the Committee level.

**FISCAL IMPACT:**

There is no direct fiscal impact resulting from the review of this item.

Attachment A: Revised Special Board Meeting Agenda Topics

Prepared by: Kim Johnson, Executive Assistant

Approved by: Michael J. Bardin, General Manager



ATTACHMENT "A"

**SPECIAL BOARD MEETING SCHEDULE REVISED 05/29/18**

<b>DATE</b>	<b>TIME</b>	<b>TOPIC</b>
Thursday, March 1, 2018	8:30 a.m. – Noon	<ul style="list-style-type: none"> <li>• Review Draft 2018 Strategic Business Plan</li> <li>• Review District Mission and Vision Statements</li> <li>• Update Strategic Goals</li> </ul>
Thursday, March 29, 2018	8:30 a.m. – Noon	<ul style="list-style-type: none"> <li>• Strategic Financial Planning w/Consultant                             <ul style="list-style-type: none"> <li>○ Reserve Funds Policy</li> <li>○ CIP Funding Strategies</li> <li>○ Long-term Financial Obligations</li> </ul> </li> </ul>
Wednesday, April 25, 2018	8:30 a.m. – Noon	<ul style="list-style-type: none"> <li>• Water Rates w/Consultant                             <ul style="list-style-type: none"> <li>○ Rate Setting Objectives/Goals</li> <li>○ COSS Overview/Legal/Procedural</li> <li>○ Alt. Water Structure Development</li> <li>○ Rate Setting Policies (Pass Through, Demand Reduction)</li> </ul> </li> </ul>
Tuesday, May 29, 2018	8:30 a.m. – Noon	<ul style="list-style-type: none"> <li>• Alternative Rate Structures Review</li> <li>• CalPERS UAL Funding Strategies</li> </ul>
Wednesday, June 27, 2018	8:30 a.m. – Noon	<ul style="list-style-type: none"> <li>• Discussion on Alternative Rate Structures</li> <li>• Discussion of Sources/Uses for Capital Outlook in COSS</li> </ul>
Thursday, August 30, 2018	8:30 a.m. – Noon	<ul style="list-style-type: none"> <li>• Discussion on Rate Structure and Customer Impacts</li> <li>• Discussion on COSS Framework</li> <li>• Strategic Business Plan Review</li> </ul>
Wednesday, September 26, 2018	8:30 a.m. – Noon	TENTATIVE
Wednesday, October 24, 2018	8:30 a.m. – Noon	TENTATIVE