

MINUTES OF A WORKSHOP MEETING OF THE BOARD OF DIRECTORS
OF THE VALLECITOS WATER DISTRICT
TUESDAY, MAY 22, 2018, AT 3:00 PM
AT THE DISTRICT OFFICE
201 VALLECITOS DE ORO, SAN MARCOS, CALIFORNIA

President Hernandez called the Workshop meeting to order at the hour of 3:00 p.m.

President Hernandez led the pledge of allegiance.

Present: Director Elitharp
Director Evans (3:01 p.m.)
Director Martin
Director Sannella
Director Hernandez

Staff Present: General Manager Pruim
Legal Counsel Gilpin
Administrative Services Emmanuel
Finance Manager Owen
Financial Analyst Arthur
Executive Secretary Posvar

ADOPT AGENDA FOR THE WORKSHOP MEETING OF MAY 22, 2018

18-05-08 MOTION WAS MADE by Director Sannella, seconded by Director Martin, and carried unanimously, to adopt the agenda for the Board Workshop Meeting on May 22, 2018.

PUBLIC COMMENT

None.

ITEM(S) FOR DISCUSSION

VALLECITOS WATER DISTRICT'S CALPERS PENSION OBLIGATIONS

General Manager Pruim stated the purpose of the workshop is to discuss Public Employee Retirement System (PERS) costs. This was discussed at last Wednesday's Board meeting referencing today's meeting. The agenda is to talk about the purpose and going over what was discussed at the May 16 Board meeting, discuss the legal considerations which will be presented by Legal Counsel Gilpin, discuss some of the actions taken to address PERS costs, discuss the components of the PERS costs, discuss the options to address the PERS costs, and will provide insight on what those options would mean on Vallecitos customers. Will be looking only at the single family residential customer.

General Manager Pruim further stated that the purpose of today's meeting is to share more information with the Board regarding PERS costs, to address any Board questions or concerns they may have, the Board identify the options they want staff to consider further, and provide staff any direction.

General Manager Pruim recapped last week's Board meeting stating discussion took place on the funding sources, discussed unfunded accrued liability, normal costs, the District's current liability, and was asked about Encina Wastewater Authority's liability.

Legal Counsel Gilpin addressed the Board stating given the discussion from last week's Board meeting, there are several legal considerations that he wanted to discuss with the Board. This consisted of:

- The California Rule
- PERS – Voluntary Termination
- Defined Benefit Plans
- Employee Contribution Limits
- Cost Sharing

He cited a California rule that stems from a 1955 court ruling in which the court defined public benefits as sacrosanct and that can't be amended or changed without some offsetting benefit. That led to Governor Brown executing PERS reform. Two subsequent cases followed up on cuttings of the pensions. The first case being the Marin County Employees' Retirement Association filing in which the court upheld a PEPPA provision prohibiting pension spiking. The second case was the Cal Fire Local 2881 filing in which the case upheld a PEPPA provision which eliminates "airtime" purchases. Both cases are under review at the California Supreme Court. Legal Counsel Gilpin stated he does not think the retroactive benefits will be changed.

Legal Counsel Gilpin addressed whether VWD could voluntarily terminate their relationship with PERS stating that under the law, it is possible, however the District would be required to pay the current existing obligations under PERS, which would cost approximately \$80 million. He further stated there are defined benefit packages that are available such as the 457(b) Plan and the 401A, which is a defined contribution plan and involves investments from the employer's side.

Questions have arisen as to what the limits are on the amount of the employee contributions. Government Code 20156.5 limits required employee contributions. Employee limits are currently at 8% which is the limit of required contributions for an employee. Employees cannot be required to contribute more than 8% without going into negotiations. The Board cannot impose cost sharing by the employees on the employer's side of the contribution.

General Manager Pruim resumed his presentation by recapping on the actions taken already and continuing the presentation as follows:

- Actions Taken to Address PERS Costs
- Employee Cost
- District Normal Cost
- Unfunded Accrued Liability
- UAL Payment Options

Financial Analyst Arthur reviewed the following options:

- PERS 30 Year vs. 20 Year
- PERS Options
- External Funding Option
- Internal Funding Options
- PERS Options Summary

General Manager Pruim resumed his presentation as follows:

- Impacts to Customers
- Next Steps

Mike Hunsaker, member of the public, addressed the Board stating that there is a hidden assumption that goes in most of what's been heard, but it doesn't consider inflation. There are three factors which are particularly contributory to inflation: lending costs, minimum wage, and fuel costs. He's seen some projections going over 10% per year. Typically there's different floor arrangements as to whether it's 75% or 85% of the retiree's pension benefit. Once it gets above 75% or whatever the floor is, then the difference has to be made up. He feels there needs to be a discussion of what the purchasing floor basis is and how it is calculated. He thanked the Board.

Discussion on options took place following the presentation. Following discussion, the consensus was to consider internal borrowing with a 20-year option and explore supplemental payment options. Staff will present a few different options at a future Board meeting

OTHER BUSINESS

None.

ADJOURNMENT

There being no further business to discuss, President Hernandez adjourned the Workshop Meeting of the Board of Directors at the hour of 4:27 p.m.

A Regular Meeting of the Vallecitos Water District Board of Directors has been scheduled for Wednesday, June 6, 2018, at 5:00 p.m. at the District office, 201 Vallecitos de Oro, San Marcos, California.

James Hernandez, President
Board of Directors
Vallecitos Water District

ATTEST:

Glenn Pruijm, Secretary
Board of Directors
Vallecitos Water District