

AGENCY RESPONSE TO GRAND JURY REPORT

Report Title: **The Budget Squeeze: How Will Marin Fund Its Public Employee Pensions?**

Report Date: **June 5, 2017**

Response Date: **September 5, 2017**

Agency Name: Novato Sanitary District

Agenda Date: 6/12/17 & 7/10/17

Response by: A. Gerald Peters

Title: Board President

FINDINGS

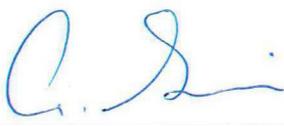
- I (we) agree with the findings numbered: Not Applicable
- I (we) disagree *partially* with the findings numbered: Not Applicable
- I (we) disagree *wholly* with the findings numbered: Not Applicable

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

RECOMMENDATIONS

- Recommendations numbered R3 - see attached letter have been implemented.
(Attach a summary describing the implemented actions.)
- Recommendations numbered R4 - see attached letter have not yet been implemented, but will be implemented in the future.
(Attach a timeframe for the implementation.)
- Recommendations numbered Not Applicable 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 R8 - see attached letter will not be implemented because they are not warranted or are not reasonable.
(Attach an explanation.)

Date: 7/12/2017

Signed: 

Number of pages attached 3



NOVATO SANITARY DISTRICT

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KENTON L. ALM
Legal Counsel

July 12, 2017

The Honorable Judge Kelly V. Simmons
Marin County Superior Court
P.O. Box 4988
San Rafael, CA 94913-4988

Jay Hamilton-Roth, Foreperson
Marin County Grand Jury
3501 Civic Center Drive, Room #275
San Rafael, CA 94903

Re: Response to Recommendations R3, R4, and R8, Grand Jury Report, "The Budget Squeeze: How Will Marin Fund Its Public Employee Pensions?" dated June 5, 2017.

The Novato Sanitary District ("District" or "Novato Sanitary"), as a utility providing sanitary services in and about Novato, California, is required to respond to recommendations R3, R4, and R8 of the subject Grand Jury Report (Report). The District Board of Directors met and discussed the Report in the open session portions of its following publicly noticed meetings, and in accordance with the notice, agenda, and open meeting requirements of the Ralph M. Brown Act:

- June 12, 2017, Board of Directors Meeting.
- July 10, 2017, Board of Directors Meeting.

The District's responses are provided below, and follow a format where each recommendation is separately listed and responded to individually (with *responses in italics*).

Responses to Recommendations

R3. Agencies should publish long-term budgets (i.e., covering at least five years), update them at least every other year and report what percent of total revenue they anticipate spending on pension contributions.

Response to R3: The District views Recommendation R3 to provide two separate recommendations, to wit: (1) To publish five-year budgets, and update them at least every other year; and (2) Report the percentage of total revenue it anticipates spending on pension

contributions. Viewing these as severable recommendations, the District will address them separately as follows:

1. *Pursuant to Penal Code section 933.05(b)(1), the District considers that it has implemented the recommendation to publish five-year budgets, and update them at least every other year.*

The District traditionally prepares a five-year rate study as part of its Proposition 218 rate setting efforts. The rate study, typically projects revenues and expenditures over the five-year effective term of study, and incorporates a projected five-year budget.

The District's most recent five-year rate study was performed in 2016 by the well regarded public finance firm of Bartle Wells Associates (Berkeley, CA), and is available at the District's website at: <http://www.novatosan.com/assets/uploads/documents/finance/2016-Sewer-Rate-Study-prepared-by-Bartle-Wells-Associates.pdf>

The District also traditionally prepares a detailed two-year budget (for the current or upcoming fiscal year as well as for the following fiscal year). Given the District's relatively small size and staffing structure, the District is of the opinion that going forward its current practice will serve to provide an adequately accurate picture of the District's finances from a budgeting perspective. This is further supported by the fact as noted in the Grand Jury's Report (page 19 of 61), that "The Novato Sanitary District stood out as being in particularly good financial condition in that it spends less than 2% of its revenues on pension contributions and has a NPL that is 18% of its cash position." As further noted, the Grand Jury considered the last five years of the District's financial data in making this statement.

2. *Pursuant to Penal Code section 933.05(b)(1), the District considers that it has implemented this recommendation beginning with its FY17-18 budget year.*

Page 4 of the District's FY17-18 Preliminary Budget is a detailed expenditures breakdown table of the District's FY17-18 Operating Budget by Cost Center and Account Category. This table lists a budgeted Pension Expenses (Trust) amount of \$223,152, or 2.16% of the Operating Budget, which equates to about 1.01% of the overall expenditures budget (Operating + Capital) for FY17-18.

R4. Each agency should provide 10 years of audited financial statements and summary pension data for the same period (or links to them) on the financial page of its public website.

Response to R4: *Pursuant to Penal Code section 933.05(b)(2), the District will implement this recommendation on a going forward basis in each of its upcoming fiscal years.*

The District began to prepare Comprehensive Annual Financial Reports (CAFRs) in FY10-11, which include the District's audited financials. The District's currently carries the last five years of its Comprehensive Annual Financial Reports (CAFRs) on its website. The CAFRs also include the summary pension data for the District, where applicable. Given that the District only has six

years of available CAFRs at this time, the District will adopt a practice of maintaining all of its past and current CAFRs on its web-site until it reaches an inventory of ten years of CAFRs on its website, and then transition to a rolling, most recent ten year inventory of CAFRs.

R8. Public agencies and public employee unions should begin to explore how introduction of defined contribution programs can reduce unfunded liabilities for public pensions.

Response to R8: Pursuant to Penal Code section 933.05(b)(4), this recommendation will not be implemented, as the District believes that it is not warranted for the District.

While generally being in agreement with this recommendation, the District believes that this exercise would be of limited strategic utility to the District at this time in addressing its unfunded pension liability. The District initiated a pension-liability containment strategy in 2012, when it limited all new employees hired after January 1, 2012 to a less generous 2% at age 60 CalPERS pension plan. Subsequently under PEPRAs, all new employees hired after January 1, 2013 are limited to an even less generous 2% at age 62 plan.

The District believes that this strategy led (in part at least), to the District being in a position where the Grand Jury was able to state (on page 19 of the Report) that: "The Novato Sanitary District stood out as being in particularly good financial condition in that it spends less than 2% of its revenues on pension contributions and has a NPL that is 18% of its cash position."

Further, as the Grand Jury acknowledges (page 22 of the Report), there are significant hurdles to practical implementation of defined contribution plans to limit pension liabilities, including legal (CalPERS approval under PEPRAs section 20502); financial (CalPERS termination fees); and the requirement for collective bargaining through labor union negotiations.

In closing, the District would like to acknowledge and appreciate all of the Grand Jury's hard work and efforts in preparing this timely Report on a significant issue facing all public agencies.

As always, please feel welcome to contact us if you have any questions or require additional information.

Very truly yours,

NOVATO SANITARY DISTRICT



A. Gerald Peters
President, Board of Directors

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: Novato Sanitary District

Agenda Date: 5/22/17 & 7/10/17

Response by: A. Gerald Peters

Title: Board President

FINDINGS

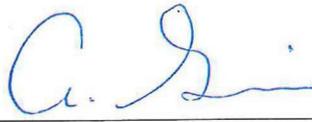
- I (we) agree with the findings numbered: Not Applicable
- I (we) disagree *partially* with the findings numbered: Not Applicable
- I (we) disagree *wholly* with the findings numbered: Not Applicable

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

RECOMMENDATIONS

- Recommendations numbered R3, R4, R5, R6, R7, R8, R9 have been implemented.
(see attached for summary of implemented actions for each of these recommendations)
(Attach a summary describing the implemented actions.)
- Recommendations numbered R1, R2 (see attached for implementation timeframe) have not yet been implemented, but will be implemented in the future.
(Attach a timeframe for the implementation.)
- Recommendations numbered Not Applicable 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 Not Applicable will not be implemented because they are not warranted or are not reasonable.
(Attach an explanation.)

Date: 7/12/2017 Signed: _____



Number of pages attached 4



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P.O. Box 4988
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Jay Hamilton-Roth, Foreperson
Marin County Grand Jury
3501 Civic Center Drive, Room #275
San Rafael, CA 94903

Re: Response to Recommendations R1-R9, Grand Jury Report, "Marin's Retirement Health Care Benefits – The Money Still Isn't There", dated May 17, 2017.

The Novato Sanitary District ("District" or "Novato Sanitary"), as a utility providing sanitary services in and about Novato, California, is required to respond to recommendations R1-R9 of the subject Grand Jury Report (Report). The District Board of Directors met and discussed the Report in the open session portions of its following publicly noticed meetings, and in accordance with the notice, agenda, and open meeting requirements of the Ralph M. Brown Act:

- May 22, 2017, Board of Directors Meeting.
- July 10, 2017, Board of Directors Meeting.

The District's responses are provided below, and follow a format where each recommendation is separately listed in bold, and responded to individually (with *responses in italics*).

Responses to Recommendations

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

Response to R1: Pursuant to Penal Code section 933.05(b)(2), the District will implement this recommendation beginning with its FY18-19 budget year.

The District's ongoing practice with regard to its OPEB liability has been to budget its Unfunded Annual Accrued Liability (UAAL) in its annual budget each year since fiscal year FY12-13. In January 2017, the District transitioned to a GASB compliant post-retirement benefits trust fund with Public Agency Retirement Services (PARS), Newport Beach, CA, to fund its GASB 45 (OPEB) and GASB 68 (Pension) liabilities. The District will adopt a formal, written policy in FY2017-18 and implement it in FY18-19.

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

Response to R2: Pursuant to Penal Code section 933.05(b)(2), the District will implement a formal written OPEB contribution policy beginning with its FY18-19 budget year. The District's intent is to consistently satisfy its formal, written OPEB contribution policy when adopted as discussed above in the response to R1.

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.

Response to R3: Pursuant to Penal Code section 933.05(b)(1), the District considers that it has implemented this recommendation.

As discussed above, the District transitioned to an OPEB trust (see Response to R1 and R2 above) with the intent that plan assets will eventually be sufficient to meet all projected OPEB benefit payments. Accordingly, the District considers that it has met this recommendation.

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

Response to R4: Pursuant to Penal Code section 933.05(b)(1), the District considers that it has implemented this recommendation.

As discussed in the Response to R1 above, the Novato Sanitary District transitioned to a GASB 75 compliant trust fund with Public Agency Retirement Services (PARS), Newport Beach, CA, in January 2017, and considers that it has met this recommendation.

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

Response to R5: Pursuant to Penal Code section 933.05(b)(1), the District considers that it has implemented this recommendation.

The highly respected California Special Districts Association (CSDA) holds regular annual financial management workshops geared specifically towards elected and appointed officials of California special districts such as the District. District officials have historically attended these

workshops, and will continue to do so, including at least once per each term of service. Accordingly, the District considers that it has implemented this recommendation.

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

Response to R6: Pursuant to Penal Code section 933.05(b)(1), the District considers that it has implemented this recommendation.

While the content of CAFRs, Audits, and GASB valuations is mandated by strict and complex legal and technical requirements, the District tries to strike a balance between these requirements, and prepare reports that are informative to the general public. Therefore, while the District considers that it has implemented this recommendation, the District is committed to transparency and continuous improvement, and will continue to enhance the overall readability of these reports to 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.

Response to R7: Pursuant to Penal Code section 933.05(b)(1), the District considers that it has implemented this recommendation.

The District is committed to continue to work towards making its public financial presentations even more understandable than currently, as discussed above (in the response to R6). Also, all public financial presentations are typically made at District Board meetings that are held on the second and fourth Mondays of each month at 5:30pm, outside of normal business working hours.

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.

Response to R8: Pursuant to Penal Code section 933.05(b)(1), the District considers that it has implemented this recommendation.

The District's website provides access to its last five years of CAFRs/Audits and last three actuarial reports in downloadable and text-searchable Adobe Acrobat .pdf file format. Accordingly, the District considers that it has implemented this recommendation.

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.

Response to R9: Pursuant to Penal Code section 933.05(b)(1), the District considers that it has implemented this recommendation.

The District implemented an OPEB benefit containment strategy in 2008. Under this strategy, the District's OPEB liability for all employees hired after July 1, 2008 is limited to a defined contribution amount of 1.5 percent of current base salary into a Medical After Retirement Account (MARA). Accordingly, the District considers that it has implemented this recommendation.

In closing, the District would like to acknowledge and appreciate all of the Grand Jury's hard work and efforts in preparing this timely Report on a significant issue facing all public agencies.

As always, please feel welcome to contact us if you have any questions or require additional information.

Very truly yours,

NOVATO SANITARY DISTRICT



A. Gerald Peters

President, Board of Directors
