Ref: 16-4776

AGENDA

INVESTMENT AND FINANCE COMMITTEE MEETING
LEUCADIA WASTEWATER DISTRICT

December 1, 2015 – 8:30 a.m.
1960 La Costa Avenue, Carlsbad, CA 92009

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1. **Call to Order**

2. **Roll Call**

3. **Public Comment**

4. **New Business**
   A. Recommend that the Board of Directors Receive and file the Actuarial Valuation of LWD's Retiree Health Program as of June 30, 2015. (Pages 2-6)

   B. Recommend that the Board of Directors Receive and file the Fiscal Year 2015 Comprehensive Annual Financial Report (CAFR). (Pages 7-11, Enclosure)

5. **Information Items**
   None.

6. **Director's Comments**

7. **General Manager's Comments**

8. **Adjournment**

MEMORANDUM

Ref: 16-4752

DATE: November 25, 2015

TO: Investment & Finance Committee

FROM: Paul J. Bushee, General Manager

SUBJECT: **Actuarial Valuation of LWD's Retiree Health Program**

RECOMMENDATION:

Staff requests that the Investment and Finance Committee (IFC):

1. Receive and file the Actuarial Valuation of LWD's Retiree Health Program as of June 30, 2015; and
2. Discuss and provide direction, as appropriate.

DISCUSSION:

Tactical Goal: Financial/OPEB Valuation

During 2004, the Government Accounting Standards Board (GASB) issued statements (No's. 43 and 45) requiring agencies such as LWD to accrue and expense liabilities of other post employment benefits (OPEB). For LWD, this meant that the district had to account for how it would pay for retiree health benefits over the working career of employees rather than on a pay-as-you-go basis. In July 2008, LWD staff contracted with Nyhart to perform an initial actuarial valuation of its retiree health program. Following this valuation, the Board authorized staff to pre-fund its actuarial liabilities through the California Employees' Retiree Benefit Trust (CERBT) with an initial deposit of approximately $177,000.

This agenda item, which is a FY 2016 tactical goal, presents the results of the most recent actuarial valuation as of June 30, 2015. This actuarial valuation is required to be performed every two years. Based on this most recent report, the District's unfunded actuarial accrued liability changed from a surplus of $136,605 to a liability of $13,069 due to changes in work place situations and actuarial assumptions. The annual required contribution (ARC) for FY 2015/2016 is $10,174. This is comprised of $9,091 for yearly compensation related expense and $1,083 for amortization of the above unfunded liability. This is an increase over the prior year's contribution of $6,278.

Ms. Marilyn Jones of Nyhart will present an overview of the actuarial valuation. A copy of the valuation report's Executive Summary is attached.

Staff requests that the committee receive and discuss the report. With the committee's approval, this item will be placed on the consent calendar for the Board's December 9, 2015 meeting.

cal:PB

Attachment

Attachment 1

OPEB Valuation Executive Summary

SECTION I. EXECUTIVE SUMMARY

Background

The Leucadia Wastewater District (the "District") selected The Nyhart Company to perform an actuarial valuation of its retiree health program. The purpose of the actuarial valuation is to measure the District's liability for retiree health benefits and to estimate the District's accounting requirements for other post-employment benefits (OPEB) under Governmental Accounting Standards Board Statements No. 43 & 45 (GASB 43 and GASB 45). GASB 45 requires accrual accounting for the expensing of OPEB. The expense is generally accrued over the working career of employees, rather than on a pay-as-you-go basis. GASB 43 requires additional financial disclosure requirements for funded OPEB Plans.

The District currently provides a contribution towards retiree health benefits through the CalPERS Health Program for 5 retirees. In addition, 17 employees and 3 Board Members are either currently eligible for or earning service credit for eligibility for retiree health benefits. To be eligible for retiree health benefits, an employee must retire from the District and commence pension benefits under PERS (typically on or after age 50 with at least 5 years of PERS service). The District's pays the CalPERS minimum required employer contribution ($122 per month in 2015, $125 per month in 2016 and indexed in the future to medical CPI) for retirees electing coverage. Section IV of the report details the plan provisions and current premium costs that were included in the valuation.

The District participates in the CalPERS Health Program for its retiree medical coverage. In general, the premium rates charged to participating employers are the same for each medical plan within each region (or "community") and are the same for both active and retired employees covered under the same medical plan. An implicit rate subsidy can exist when the non-Medicare rates for retirees are the same as for active employees. Since non-Medicare eligible retirees are typically much older than active employees, their actual medical costs are typically higher than for active employees. GASB 45 requires that implicit rate subsidies be considered in the valuation of medical costs. In past valuations the liability for the implicit rate subsidy was excluded from the valuation as the GASB had provided for an exemption for community-rated plans. This valuation includes an estimate of the liability for the implicit rate subsidy.

Results of the Retiree Health Valuation

We have determined that the amount of the actuarial liability for the District's retiree health plan as of June 30, 2015, the measurement date, is $437,638 (including $257,468 for the District's explicit contribution and $180,170 for the implicit rate subsidy). This value is based on an assumed discount rate of 7.28%. The amount represents the present value of all benefits projected to be paid by the District for current and future retirees. If the District were to place this amount in a fund earning interest at the rate of 7.28% per year, and all other actuarial assumptions were met, the fund would have enough to pay the District's required contribution for retiree health benefits. This includes benefits for the current retirees as well as the current active employees expected to retire in the future. The valuation does not consider employees not yet hired as of the valuation date.

If the amount of the actuarial liability is apportioned into past service, current service and future service components; the past service component (actuarial accrued liability) is $358,786 (including $214,203 for the District's explicit contribution and $144,583 for the implicit rate subsidy), the current service component (normal cost or current year accrual) is $8,474 (including $5,275 for the District's explicit contribution and $3,199 for the implicit rate subsidy) and the future service component (not yet accrued liability) is $70,378 (including $37,990 for the District's explicit contribution and $32,388 for the implicit rate subsidy).

Changes from Prior Valuation

The valuation reflects updated plan, census and rate information. In addition, there were several assumption changes including updates to the mortality and retirement assumptions, a lowering of the discount rate to 7.28% for CERBT investment strategy 1 and the inclusion of a liability for the implicit rate subsidy. A reconciliation of the approximate change in the liability from the prior valuation is provided below:

June 30, 2013 Valuation @7.61%	**$191,000**
Increase due to passage of time	17,000
Increase due to liability for new entrants	11,000
Net experience loss – primarily due to less favorable retirement experience	19,000
Net increase due to updated demographic assumptions	7,000
Increase due to lowering of discount rate to 7.28	13,000
June 30, 2015 Valuation @7.28%	**$258,000**
Increase due to inclusion of the implicit rate subsidy	180,000
June 30, 2015 Valuation @7.28%	**$438,000**

Funding

The District's funding policy is to fund 100% of the annual required contribution as determined under GASB 45 through the California Employers' Retiree Benefit Trust (CERBT). The market value of assets including any contribution receivable or benefits payable in CERBT as of June 30, 2015 is $345,717. The actuarial value of assets at June 30, 2015 is equal to the market value of assets. The unfunded actuarial accrued liability at June 30, 2015 is $13,069 (including $0 for the District's explicit contribution and $13,069 for the implicit rate subsidy). The plan's funded ratio is 96% (100% for the District's explicit contribution).

The CERBT provides participating employers with the choice of three investment allocation strategies. The expected rate of return of assets is dependent on the funding strategy of a participating employer and which investment allocation strategy is selected. For employers fully funding their annual required contribution, strategy 1 has a CERBT published median yield of 7.28%, strategy 2 has a published median yield of 6.73% and strategy 3 has a published median yield of 6.12%. The valuation was performed using a 7.28% discount rate assuming the District remains in strategy 1 for the 2015/2016 and 2016/2017 fiscal years and assumes no additional margin for adverse deviation applied to the CERBT stated median discount rate. The results for alternatives allocation strategies using a 6.73% and 6.12% discount rate are also provided in Section II-J of the report.

Annual Required Contribution

The District's annual required contribution (accrual expense) for the current fiscal year is $10,174. This amount is comprised of the present value of benefits accruing in the current fiscal year (normal cost) plus a 30-year amortization (on a level-dollar basis) of the unfunded actuarial accrued liability/(surplus) at June 30, 2015. Thus, it represents a means to expense the plan's liabilities in an orderly manner. The net increase in OPEB obligation/(asset) at the end of the fiscal year will reflect any actual contributions made by the District during the period for retiree health benefits including any pre-funding amounts and an estimate for the implicit rate subsidy.

Actuarial Basis

The actuarial valuation is based on the assumptions and methods outlined in Section VI of the report. To the extent that a single or a combination of assumptions is not met the future liability may fluctuate significantly from its current measurement. As an example, the healthcare cost increase anticipates that the rate of increase in medical cost will be at moderate levels and decline over several years. Increases higher than assumed would bring larger liabilities and expensing requirements. A 1% increase in the healthcare trend rate for each future year would increase the annual required contribution by 47%.

Another key assumption used in the valuation is the discount (interest) rate which is based on the expected rate of return of plan assets. The valuation is based on a discount rate of 7.28%. A 0.5% decrease in the discount rate would increase the annual required contribution by 22%. A 0.5% increase in the discount rate would decrease the annual required contribution by 21%.

GASB 45 requires that implicit rate subsidies be considered in the valuation of medical costs. An implicit rate subsidy occurs when the rates for retirees are the same as for active employees. Since pre-Medicare retirees are typically much older than active employees, their actual medical costs are almost always higher than for active employees. The valuation results were determined using the higher expected costs associated with retired employees.

Scheduled to take effect in 2018, the "Cadillac Tax" is a 40% non-deductible excise tax on employer-sponsored health coverage that provides high-cost benefits. For pre-65 retirees and individuals in high-risk professions, the threshold amounts are currently $11,850 for individual coverage and $30,950 for family coverage. For insured plans, the insurance company is responsible for payment of the excise tax. For self-funded plans, the employer is responsible for payment of the excise tax. The valuation does not include any additional liability for the Cadillac Tax.

The valuation is based on the census, plan and rate information provided by the District. To the extent that the data provided lacks clarity in interpretation or is missing relevant information, this can result in liabilities different than those presented in the report. Often missing or unclear information is not identified until future valuations.

MEMORANDUM

Ref: 16-4770

DATE: November 25, 2015

TO: Investment and Finance Committee

FROM: Paul J. Bushee, General Manager

SUBJECT: **Fiscal Year 2015 (FY 15) Comprehensive Annual Financial Report**

RECOMMENDATION:

Staff requests that the Investment and Finance Committee (IFC) recommend that the Board of Directors:

1. Receive and File the Fiscal Year 2015 Comprehensive Annual Financial Report (CAFR).
2. Discuss and take other action, as appropriate.

DISCUSSION:

Tactical Goal: Financial/FY 2015 Audit

State law requires the Leucadia Wastewater District (LWD) to prepare a complete set of financial statements in conformance with generally accepted accounting principals (GAAP). The law also requires that the financial statements be audited in accordance with generally accepted auditing standards. For LWD, these documents collectively take the form of LWD's annual financial audit.

LWD prepares a more comprehensive financial audit, which is known as a Comprehensive Annual Financial Report or CAFR. This year's CAFR includes the following sections:

- Introductory section that includes the letter of transmittal
- A Financial section that includes the Independent Auditor's Report, Management's Discussion and Analysis, Basic Financial Statements with notes, and supplementary information
- Statistical section that includes cost and revenue comparisons for the past 10 years.
- Other information

The accounting firm of White Nelson Diehl Evans LLP has completed its audit of LWD's FY 15 CAFR. Staff is pleased to report that the auditors found that the financial statements fairly represent LWD's financial condition and is in conformance with GAAP.

Attached for the committee's information is the draft Audit Committee Letter which provides information about the auditor's responsibilities under generally accepted auditing standards. Also provided is a draft copy of the full CAFR which is enclosed for your review.

Staff along with Mr. Harvey Schroeder and Mr. David Forman of White Nelson Diehl Evans LLP will present an overview of the CAFR at the upcoming meeting.

cal:PJB

Attachment

Enclosure

WHITE NELSON DIEHL EVANS LLP
Certified Public Accountants & Consultants

Board of Directors
Audit Committee
Leucadia Wastewater District
Carlsbad, California

We have audited the basic financial statements of the Leucadia Wastewater District for the year ended June 30, 2015, and have issued our report thereon dated December XX, 2015. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 1, 2015. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings:

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Leucadia Wastewater District are described in Note 1 to the financial statements. As discussed in Note 1 to the basic financial statements, the District adopted Governmental Accounting Standards Board's Statement No. 68, "*Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27*", and Statement No. 71, "*Pension Transition for Contributions Made Subsequent to the Measurement Date, an Amendment of GASB Statement No. 68*". The adoption of these standards required retrospective application resulting in a $3,456,451 reduction of previously reported net position. As discussed in Note 13 to the basic financial statements, the District has also restated net position at the beginning of the year to reflect its share of the Encina Wastewater Authority's retroactive restatement due to the implementation of GASB statement numbers 68 and 71 in the amount of $1,816,300. We noted no transactions entered into by Leucadia Wastewater District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Significant Audit Findings (Continued):

Qualitative Aspects of Accounting Practices (Continued)

The most sensitive estimates affecting the financial statements were:

a. Management's estimate of the fair market value of investments which is based on market values by outside sources.

b. The estimated useful lives for capital assets which are based on industry standards.

c. The annual required contribution for the District's Other Post Employment Benefit Plan is based on certain actuarial assumptions and methods.

d. The actuarial estimate of the CalPERS Net Pension Liability and the related deferred inflows and outflows.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was:

a. The disclosure of the net pension liability in Note 9 to the financial statements.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Adjustments

Professional standards require us to accumulate all known and likely adjustments identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. As a result of our audit related test work, we proposed no corrections to the financial statements that, in our judgment, had a significant effect on the District's financial reporting process.

Disagreements with Management

For the purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December XX, 2015.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Leucadia Wastewater District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Leucadia Wastewater District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to management's discussion and analysis, Schedule of Funding Progress for OPEB, Schedule of Contributions-Defined Benefit Pension Plan and Schedule of the Proportionate Share of the Net Pension Liability, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the Combining Schedule of Changes in Net Assets-June 30, 2015 in the Supplementary Information of the Financial Section for the year ended June 30, 2015, which accompanies the financial statements but is not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Other Matters (Continued)

We were not engaged to report on the Introductory Section, the Statistical Section or the Schedule of Use of Capacity Charges for the year ended June 30, 2015 in the Other Information Section, which accompany the financial statements but are not RSI. We did not audit or perform other procedures on this other information and we do not express an opinion or provide any assurance on it.

Restrictions on Use

This information is intended solely for the use of the Board of Directors, Audit Committee and management of the Leucadia Wastewater District and is not intended to be and should not be used by anyone other than these specified parties.

Carlsbad, California
December XX, 2015