

Director Siegfried - Board Questions 01-28-21

pp. 132 - 33: One of the motivations for obtaining information from additional Section 115 providers was to get a sense of the variety of providers' potential contributions to our investment risk profile, and, hopefully, to judge whether diversification among providers is beneficial. I request the committee to revisit the request to obtain this information.

The risk profile for the Pension Committee is conservative or low risk. The committee prefers stable investments and focuses only slightly on capital growth. We would anticipate investment growth that was gradual with little volatility. Typically called low or low-moderate risk.

The Pension Committee's approach was to assume that anything below 2% we could probably earn at the County of Monterey. Anything above 7% we should be investing in CalPERS. So, we were focused on the range between 2% - 7%.

Summary of three RFP responses:

Keenan: offers 6 different investment portfolios

<i>Portfolio</i>	<i>1 yr</i>	<i>3 yr</i>	<i>5 yr</i>	<i>Fees</i>
Fixed Income	8.20%	5.24%	5.02%	30 basis points
Conservative	8.64%	5.58%	5.82%	"
Moderate	10.03%	6.19%	6.91%	"
Moderate Growth	10.97%	6.73%	7.73%	"
Growth	10.59%	6.69%	8.39%	"
Aggressive Growth	11.57%	7.42%	9.49%	"

Keenan did not provide information on their risk tolerance levels.

PARS: offers nine different investment portfolios

<i>Portfolio</i>	<i>1 yr</i>	<i>5 yr</i>	<i>10 yr</i>	<i>Fees</i>
Capital Appreciation	8.11%	9.03%	8.63%	<\$5M = 60 basis
Balanced	8.20%	8.18%	7.82%	\$5-\$10M = 50 basis
Moderate	7.87%	7.51%	7.11%	
Mod. Conservative	7.10%	6.11%	5.68%	
Conservative	6.57%	5.11%	4.51%	
Balanced-Index	7.50%	7.92%	7.70%	
Moderate-Index	7.26%	7.24%	7.01%	
Mod. Conservative-Index	7.06%	5.92%	5.48%	
Conservative-Indes	6.80%	4.78%	4.25%	

CalPERS: offers two different investment portfolios

<i>Portfolio</i>	<i>Expected 1-10 yr</i>	<i>Asset Breakdown</i>	<i>Fees</i>
Strategy 1	5.0%	40% Global equity, 47% Fixed Income, 8% Global RE, 5% TIPS	25 basis points
Strategy 2	4.0%	14% Global equity, 73% Fixed income, 8% Global RE, 5% TIPS	25 basis points

The CalPERS Strategy 2 is more conservative than Strategy 1.

All three RFP respondents offered a conservative investment portfolio; however, CalPERS offered the lowest cost with 25 basis points. Keenan was very close to CalPERS with 30 basis points, however we felt with CalPERS' experience and essentially the same returns over the long term for a conservative portfolio that the addition 5 basis points was a selling point for CalPERS.

p. 134: Did we not accept CalPERS already? If this resolution is intended say CalPERS will be the exclusive provider of 115 trust services, it needs editing.

Yes, you are correct. The Board passed Resolution 2020-67 in September 2020 "authorizing an agreement and election to prefund employer contributions to a defined benefits pension plan with the CalPERS IRS Code 115 California Employers Pension Prefunding Trust". At that same meeting, staff was instructed to submit a Request for Proposals (RFP) for Section 115 services.

The resolution presented here is to "accept the results of the Section 115 RFP". It does not take the place of resolution 2020-67; but rather, responds to the Board's request for an RFP. It has long been District practice to accept RFP results via resolution, so I wanted to be consistent with past practice. Its helpful to have the resolution should staff be called upon sometime in the future to research the origins of the Section 115 trust account.

p. 135 - 36: There is no sense discernible by me in which Section 115 assets "can be used as an emergency source". The funds cannot be used for other purposes, as noted in the subsequent bullet point.

You are correct that Section 115 assets are dedicated to pension expenditures. However, the District does have the option of ceasing all general fund payments to CalPERS and paying our bi-weekly contributions out of the Section 115 assets. Since we contribute roughly \$250K annually to fund CalPERS that could be used as an emergency source of funding if required (i.e., Section 115 funds CalPERS and operating funds are thereby freed-up for another purpose). That strategy is not advocated on an ongoing basis, but it certainly could be employed short term to cover an "emergency".

The Section 115 assets could also be used as a rate stabilization fund since greater reliance could be placed on the trust assets to fund normal CalPERS contributions thereby reducing the dependence on user fee revenues.

It will be difficult for me to vote in favor of funding this fund based on the discussion. I am in favor of the proposal, but the discussion is naive in discussing only a hoped-for increase in investment returns without also discussing any increase in risk the district will assume.

No comment – see above

The three rationales are rationales for investing in a Section 115, not for selecting \$550k as the initial funding threshold.

The rationale for selecting \$500k may be simplistic; but that is only because there is no “rule” for funding. They are presented at the bottom of page 135, but can be restated as follows:

- We can estimate what the UAL will be over the next two years by multiplying the plan current assets by the shortfall from anticipated earnings. It is a rough estimate because it does not consider demographic or COLA changes, but it is sufficient for discussion purposes. We know that this year the UAL is \$38K and we estimate \$160-170K for the following year for a total of \$200-210K in UAL payments. In other words, short-term funding needs account for roughly 1/3 of the initial deposit into the trust.
- We also know that the District has currently \$39M in its combined bank accounts. Most of that money is already earmarked for Sea Level Rise and Capital Projects, so the rationale in funding the Section 115 was to not transfer too large an amount that it would cause limitations in other areas of CAWD operations. For the purposes of this analysis, I looked only at 2 years of capital planning, but we could easily argue for up to 5 years and argue it was still “short term”.

Estimates only below:

Current balance		\$39,702,000
Sea Level Rise Reserve	<\$ 4,000,000>	
Treatment 2-year Capital	<\$13,700,000>	
Collection 2-year Capital	<\$ 7,100,000>	
O&M Budget 1 year	<\$ 8,300,000>	
Short-term Fund Balance		\$ 6,602,000

- There was also a discussion to the effect that this \$500K represents the initial seed money only. And that the Pension Committee would be charged with monitoring the account and making annual recommendations for funding. The Committee agreed to send a funding recommendation to the Budget Committee after the 4th Quarter annual review each year.

P. 137: Absent some discussion of the risk/return tradeoffs, the Pension Committee has, so far, only convinced this board member that the Trust will allow the District to invest at a higher risk. Recall that the Pension Committee discussed risk when deciding to adopt a tolerance for slightly increased volatility for the SAM plan, voicing mild trepidation at the prospect of going farther.

I think that is a true statement. For both the SAM and CalPERS the pension committee has expressed interest in earnings, but only with minimal risk because the investment represents a public pension plan. Trepidation may be too strong a word, but it is accurate enough. At the risk of speaking for Mike Rachel and Rob Wellington, I would describe the committee’s approach as conservative.

p. 153: How does this amount compare with previous pipeline project environmental services costs?

Denise Duffy & Associates for Hatton Canyon charged us \$80K for biological monitoring. That portion of Rincon's proposal is \$100K. The costs associated with a Native American Monitor adds \$80K and an Archaeological Monitor adds another \$100K. This site has more resources to protect.

Director Rachel – Board Questions 01-28-21

P. 26 Check #35748 for \$ 61,466.73 Is this for Project #18-11?

The portion described as Microturbine Programming is for project #18-11. It involved design work for a new microturbine control panel.

The rest of the check for First Alarm OPS PLC, headworks remote IO and dewatering PLC conversion should be for project #18-05 PLC and SCADA Programming Project.

P. 91 The accomplishments detailed in the 2020 CAWD Collections Annual Report are outstanding and I suggest additional recognition for all involved.

Absolutely! Rachel and Daryl and their team have really made great strides. COVID-19 has not knocked them out, the red-hot real estate market has not knocked them out, and they have done a great job with pipeline projects. With the addition of Alex to the team the plan is to meet the goals of the River Watch Settlement Agreement. Plus, ZERO sanitary sewer overflows this past year.

P. 127 Carmel Meadows Pipe Replacement Project. Is this Project #19-03?

Yes. We will try to be better at including that in the text.

P. 174 Retroactive to 7-1-19 or 7-1-20?

Good catch! It is retroactive to 7-1-20. The statement under the section "RECOMMENDATION" should be corrected. Under the section "DISCUSSION" it is listed correctly as 07-1-20.

P. 324 Is there a specific rationale to continue incurring the electrical cost of running the MLR pumps if there is no proven benefit?

What we have is a disagreement between the Plant Engineer and the Plant Superintendent. The Plant Superintendent holds the license to operate the plant with the Regional Board so we must defer to him. However, the Plant Engineer's arguments are quite persuasive, and we are working on either bringing the Plant Superintendent to the other side or having him educate us more persuasively. Stay tuned, your question is very appropriate.

P. 330 By comparison to the NPS study, I think it would be helpful to receive an organizational perspective from Beth Ingram.

Yes, I have asked her to do this. Since 24 hours is not enough time to prepare, she has asked if she can defer until her next presentation. My aim is to get her in front of the board, at a minimum, on a semi-annual basis.