NEVADA IRRIGATION DISTRICT

BOARD OF DIRECTORS / JOINT POWERS AUTHORITY

MINUTES

September 14, 2016

The Board of Directors of the Nevada Irrigation District and the Nevada Irrigation District Joint Powers Authority convened in regular session at the District's main office located at 1036 W. Main Street, Grass Valley, on the 14th day of September 2016 at 9:00 a.m.

Present were Nancy Weber, President (Division I); Nick Wilcox, Vice-President (Division V); John H. Drew (Division II), W. Scott Miller (Division III), and William Morebeck (Division IV), Directors.

Staff members present included Rem Scherzinger, General Manager; Tim Crough, Assistant General Manager; Marvin V. Davis, Finance Manager/Treasurer; Chip Close, Operations Manager; Brian Powell, Maintenance Manager; Gary King, Engineering Manager; Keane Sommers, Hydroelectric Manager; Jana Kolakowski, Human Resources Manager; Dustin Cooper, District Counsel; and Lisa Francis Tassone, Board Secretary.

<u>DOCUMENTARY: Working Lands – A History of Agriculture in Nevada County</u>

President Weber announced that PBS will be airing the Nevada County Resource Conservation District's documentary titled 'Working Lands – A History of Agriculture in Nevada County' on the following dates:

- Wednesday, September 28 at 7:00 p.m.
- Friday, September 30 at 4:00 p.m.
- Sunday, October 2 at 6:00 p.m.

<u>CASCADE SHORES PHASE V FINAL ASPHALT PAVING PROJECT – (Adding Item to Agenda)</u>

Rem Scherzinger, General Manager, asked the Board to consider adding this item to the agenda, because it came to the attention of the Board Secretary after the agenda was posted. The matter cannot wait until the next Board meeting on October 12, 2016.

Added an item to the agenda regarding the Cascade Shores Phase V Final Asphalt Paving Project – Award of Contract No. M2016-02. Wilcox/Drew, unanimously approved

MINUTES – August 24, 2016 Regular Meeting

Approved the minutes of the regular meeting on August 24, 2016, as submitted. M/S/C Drew/Morebeck, unanimously approved

WARRANTS

Approved the following warrants: All Fund Nos. 76033 through 76378, inclusive; Payroll Direct Deposit and Warrant Nos. 80413 through 80439 and V12506 through 12860, inclusive; and Wire Transfer/ACH Payment Nos. 900457 through 900504 and 900487 through 900490. M/S/C Drew/Morebeck, unanimously approved

EMPLOYEE RELATIONS – Crough Retirement (Res. No. 2016-32)

Adopted Resolution 2016-32 (Resolution of Appreciation upon Retirement – Timothy A. Crough) after 12 years of service to the District. M/S/C Drew/Morebeck, unanimously approved

POLICY: Administrative Policies – Preventing Harassment, Discrimination and Retaliation (Res. No. 2016-33)

Adopted Resolution No. 2016-33 (Establishing Policy for Administration – Preventing Harassment, Discrimination and Retaliation). M/S/C Drew/Morebeck, unanimously approved

PURCHASE OF A TRUCK AND TRANSFER SET – RFQ No. 884

Approved purchase of a Kenworth T800 Truck and Transfer Set from NorCal Kenworth in the amount of $211,524.80, and authorized the General Manager to execute the necessary documents. M/S/C Drew/Morebeck, unanimously approved

EMPLOYEE RELATIONS – New Employee Introduction, Peden

Brian Powell, Maintenance Manager, introduced Steven Peden, Utility Worker I. Mr. Peden was born in North San Juan and moved to Grass Valley. He is a graduate of Nevada Union High School. After high school, he enlisted with the Army (Infantry Division) for three years in North Carolina. He is married and has a son. He has worked as a temporary employee with Nevada County, he worked for Fisher's Towing where he obtained his Class 'A' Driver's License, and he has been a temporary employee with the District on two assignments. He has a good work ethic and is a hard worker.

The Board and Staff welcomed Mr. Peden to the District.

EMPLOYEE RELATIONS – New Employee Introduction, Hickey

Brian Powell, Maintenance Manager, introduced Brian Hickey, Equipment Mechanic I. Mr. Hickey was born and raised in Wheatland and is a graduate of Wheatland High School. He is married and has a daughter. He has a number of years of experience as a mechanic. He worked with Caltrans, South Lake Tahoe and Marysville. He was recently employed with Folsom Prison as a mechanic.

The Board and Staff welcomed Mr. Hickey to the District.

PUBLIC UNFUNDED LIABILITIES – Response to Questions by a Member of the Public

Marvin Davis, Finance Manager/Treasurer, addressed a member of the public's concerns about the District's unfunded liabilities. Mr. Davis pointed out that he met with a representative of CalPERS to obtain additional information.

Pension Liability

Recording of the District's Net Pension Liability (NPL) of $37 million as reflected on the Comprehensive Annual Financial Report (CAFR) is in accordance with Governmental Accounting Standards Board (GASB) 68 and 71 (Attachment A page 38). In addition, to the mandated disclosures provided in Note 7 (Attachment A page 34), these statements require recording of this unfunded liability in District accounts. He provided responses to the public concerns:

1) *Is the District adequately funding this liability while being cognizant of its size?* The schedule taken from the most recent June 30, 2015 CalPERS Actuarial valuation indicates historical employer contributions and funding history (Attachment B page 19). The unfunded liability fluctuates from 2010 to 2015 resulting from various assumptions (Attachment A page 47). The increase in the unfunded rate from 13% to 21% reflects CalPERS attempt to have employers fund this liability sooner than in Fiscal Years 2012-13. However, this increase appears inconsistent with the 5-Year geometric returns (Attachment B page 11).

   CalPERS switched its approach to recovering against this liability beginning Fiscal Year 2017-18 from a percentage amount to a level payment amount.

   Theoretically, as the unfunded liability percentage increases, one would expect a definite amortization schedule to bring this liability to zero. The amortization schedule (Attachment B page 17) indicates the 2017-18 payment applicable to the unfunded liability is $2.7 million and can increase to $4.1 million by June 30, 2024.

   Staff does not recommend additional funding toward a 20-year or 15-year amortization period based on the most recent size of the District's plan assets ($76.5 million) and uncertainty of the continuous contributions toward the unfunded liability.

2) *What is the District doing to reduce and eliminate this liability?*
   CalPERS has structured the unfunded liability portion of the employer's contribution (currently 21.26%) to eliminate this liability over a 30-year amortization period. The projected remaining balance on the unfunded liability in future years is located on page 17 of the actuarial report under the column labeled 'Current Amortization Schedule.' This schedule represents expected balances, given realized actuarial assumptions. The District's contributions are at least equal to the payment schedule and meet the required minimum to achieve the 30-year liability elimination.

3) *How long will it take to eliminate this liability?*
   The liability will only be eliminated when the market value of assets ($76.5 million) equal or exceed the accrued liability ($116.4 million) - Attachment B page 13. However, if retiree draws reduce the current value of assets ($76.5 million) to an unacceptable level, larger annual contributions is a consideration. The liability's assumptions are extensive and based on a 30-year amortization period to retire (Attachment A page 47).

Director Wilcox asked if the District can choose what amortization schedule to use.

Mr. Davis stated that the District can choose an amortization schedule. He explained that if the 20-year or 15-year amortization schedule is used, the District's payments increase significantly.

Director Wilcox stated that basically the unfunded liability is accrued because public agencies have been generous over the years in granting benefits, and these benefits were granted without fully understanding what the future liabilities would be.

Rem Scherzinger, General Manager, stated that benefit packages have been created, and the costs for the packages have not been paid up front. The District is on schedule to pay costs over a period of time.

Director Wilcox pointed out that the books of CalPERS now look much better, and the books of the District look worse, because the District is now required to carry the unfunded liability that CalPERS previously carried on their books.

John Paasch, member of the public, commented that he is employed with the State of California and is a member of CalPERS. One benefit of the GASB requirement is that there is now open dialogue about this topic.

Director Drew stated that he asked two specific questions at the conclusion of the Auditor's report: 1) Are we on track in meeting District obligations? Auditor's Response: Yes; and 2) Are we funded to meet these obligations? Auditor's Response: Yes.

Other Post Employment Benefits (OPEB)

The District's OPEB change is a positive $539,000 (Asset) as reported on the Comprehensive Annual Financial Report (CAFR) - Attachment A page 40. This reporting standard is in accordance with Governmental Accounting Standards Board (GASB) 45. Beginning with fiscal year ending December 31, 2018, GASB 75 changes this reporting standard.

Under current GASB accounting standards, employers are required to report the *change* to the Net OPEB obligation for the current reporting period. The new accounting standard will require employers to report their Net OPEB liability on the balance sheet. The current Unfunded Actuarial Accrued Liability (UAAL) reported December 31, 2015 is $15.7 million (Attachment A page 41). This estimate is different from the auditor's estimate presented in July of $16 million. The District is currently in the process of obtaining the updated actuarial valuation from Bartel Associates, LLC as of June 30, 2015.

Mr. Davis provided responses to the public concerns:

1) *Is the District adequately funding this liability while being cognizant of its size?* The 2015 CAFR estimates are from the June 30, 2013 valuation report according to GASB reporting timeframe. The CalPERS annual update estimates the UAAL at $13.4 million ($25.9 million – $12.5 million Assets) - Attachment C page 7. Staff believes the District is funding this liability adequately in light of the District's existing rate study and prudent funding practices.

2) *What is the District doing to reduce and eliminate this liability?* The District contributes 100% of the total Annual Required Contribution (Premiums & Irrevocable Trust Payment) - See Attachment C page 5 for historical contributions.

3) *How long will it take to eliminate this liability?* The preliminary June 30, 2015 valuation report from Bartel Associates, LLC estimates 11 amortization years to eliminate this liability.

Bob Branstrom, member of the public who asked these questions of the Board, stated that he is happy to hear that Mr. Davis met with a representative of CalPERS. Mr. Branstrom asked if there was discussion about what the future discount rates would be for assumption purposes.

Mr. Davis stated that there was some discussion about discount rates. There was no indication that the discount rates would be changed. He noted that the discount rates are supposed to mirror investment rates.

President Weber pointed out that the Directors do not receive retirement benefits in the form of health or pension. The Directors are offered the benefit packages while they are active in their role as Director.

Mr. Branstrom thanked the Board and Staff for taking a serious look at this issue, which is a very serious issue. He appreciated all of the data that was provided. He would like to discuss one issue a little further. He stated that under actuarial assumptions, the

District is doing a great job funding for the pension liability and the OPEB liability. He would like to address the pension liability at this time. He brought attention to the discount rate which is the same as the assumed market rate of return on the portfolio. The single most important factor in determining the pension liability is the discount rate. He referenced Attachment B page 11 – the table at the bottom of the page. His concern is with the actual return in the first line of the table – Geometric Return. He focused on the 10-year and 20-year columns. The 30-year column is affected by the late 1980's Federal Reserve policy dealing with inflation. He will also exclude the 1-year and 5-year columns because they are statistically unreliable due to the short periods of time.

Director Miller asked who determines the discount rate.

Mr. Branstrom stated that CalPERS determines the rate.

Director Miller asked why there is discussion about the rate when it is predetermined.

Mr. Branstrom stated that there is a risk involved that he would like the Board to be aware of.

Mr. Branstrom stated that the 10-year rate of return is 6.1 percent. The 20-year rate of return is 7.7 percent. The returns that CalPERS is receiving reflect what has happened in the market. Over the last two decades, returns have declined. The first decade the return was 9.3 percent and the second decade, 6.1 percent. The discount rate that CalPERS is using is based on the 20-year period (7.7 percent). Over time, as returns are reduced, the District will be at risk. When the discount rate is reduced, the District's assets ($76 million) will be expected to earn less money to support the District's obligations. Also, the District's future obligation is discounted less so the present value of the obligation is increased.

Mr. Branstrom referenced Attachment B page 22 – Analysis of Discount Rate Sensitivity. He believes that CalPERS returns are reducing which means that in February 2018, when the discount rate is recalculated, CalPERS will have to re-amortize all of the obligations which could amount to a 1 percent reduction in the discount rate.

Mr. Branstrom likened the situation to purchasing a home with an adjustable rate mortgage with a two-year fixed rate. In two years, the interest will likely increase, while income will decrease. Options would include refinancing the loan, re-amortize over a longer period of time, or buy down the loan by paying principal first. This is where he and Mr. Davis disagree. Mr. Branstrom believes that using the 20-year amortization schedule would be a wise and prudent move because the liability will be paid off sooner.

President Weber stated to Mr. Branstrom that CalPERS needs competent, ethical individuals to run for their Board. She suggested that he research this matter.

Director Wilcox thanked Mr. Davis and Mr. Scherzinger for the presentation on the unfunded liability issues. He also thanked Mr. Branstrom for asking thoughtful questions. He suggested scheduling a follow-up agenda item to discuss Mr. Branstrom's comment regarding the discount rate.

LOMA RICA HYDROELECTRIC FACILITY – Design and Remaining Phase II Tasks

Adrian Schneider, Senior Engineer, stated that in February 2014, the Board approved Phase I of the Loma Rica Hydroelectric Facility contract which included preliminary design and feasibility of the Facility. If the Project was feasible, Staff would request that the Board consider Phase II of the Project. The Board approved Task 2b on July 20, 2016 to investigate the Federal Aviation Administration (FAA) status with the Project.

The FAA and PG&E provided their responses to the District in August 2016. Responses were favorable and did not change the Project's financial payback period estimated in the 2016 Preliminary Design Report. PG&E estimated a $240,000 payment for the line increases. The FAA granted the District clearance once they requested that the Facility be relocated south of the runway.

Director Drew asked what the construction costs will be.

Mr. Schneider stated that the estimated construction costs are $2.7 million.

Director Drew asked what the estimated payback time will be.

Mr. Schneider stated that the estimated payback time will be 15 years.

Director Drew stated that uphill from the E. George pump station there is a cut in the bank. There is a great deal of foot traffic, bicycle traffic, etc. that follows that path. He wants to be assured that the Facility will be secured.

Director Wilcox stated that part of what is being requested is the power unit purchase in the amount of $37,000. He asked if that is the cost for the turbine.

Mr. Schneider stated that the consultant is responsible for creating a bid package and responding to any questions. The power unit purchase will be much more.

Director Wilcox asked how far the Facility had to be moved from the flight path on Nevada County property.

Mr. Schneider stated that the Facility had to be moved 100 feet to the south on District property.

Director Wilcox asked how much the FAA's non-cooperation increased the cost of the Project.

Mr. Schneider stated that the non-cooperation was more from Nevada County because they would not provide the District with the land.

Approved remaining tasks in Phase II in the amount of $320,573 for the Loma Rica Hydroelectric Project, and authorized the General Manager to execute the necessary documents. M/S/C Miller/Drew, unanimously approved

President Weber stated that she would like to know the total cost to date that has been spent on the Project.

Mr. Schneider stated that he will provide this information to the Directors by email.

BACKBONE EXTENSION PROGRAM (BEP) – Lodestar-Conestoga Pipeline Project

Douglas Hobbs, Associate Engineer, stated that this is the final segment to the Alta Sierra / Lake of the Pines intertie Project. This is part of a BEP Program. This segment will complete the pipeline portion and will allow local residents the opportunity to connect to the system. There will also be opportunities for branch lines (i.e. Victoria Drive). The transmission portion of the Project will be completed next year with a Pressure Reducing Valve Station that will be needed at the end of East Hacienda Drive in order to connect the Alta Sierra and Lake of the Pines systems.

Mr. Hobbs stated that quotes were requested from nine firms, and five quotes were received:

Quote From:	Quote:
McGuire & Hester	***$1,697,250***
Lorange Brothers	$1,919,236
T&S Construction	$1,940,492
Hansen Brothers	$2,045,520
Teichert Construction	$2,058,515

The funding for the Project is proposed from a combination of BEP funds, Capacity Fees, and Community Investment Program (CIP) funds, and is broken down as follows:

Total Project Cost	BEP	Capacity Fees	CIP
$1,697,250	$730,862	$866,388	$100,000

Awarded contract to McGuire and Hester in the amount of $1,697,250 for construction of the Lodestar-Conestoga Pipeline Project, approved the associated budget amendment, and authorized the General Manager to execute the necessary documents. M/S/C Wilcox/Drew, unanimously approved

The Board expressed their appreciation for the work that has been done on this Project which will provide a huge benefit (water and fire safety) to an area that has been unserved.

QUARTER MINER'S INCH PHASE OUT

Chip Close, Operations Manager, presented a recommendation from the Water and Hydroelectric Operations Committee to eliminate the quarter miner's inch allotment for future sales. These quarter miner's inch services have proven to be labor intensive. A great deal of time is spent by the Water Distribution Operators' unplugging these services. The District also receives a number of calls regarding over-drafting of water.

There is a history to the quarter miner's inch service. It was developed during the drought, it was then taken away, and then brought back again. Staff would like to phase the service out, ensuring that those existing quarter miner's inch customers continue to receive this service. New requests for quarter miner's inch service would not be accepted.

Mr. Close explained that he has developed a letter, and upon Board approval, he will mail this letter to all quarter miner's inch customers to inform them of the change. If they are happy with their service, they need to do nothing. If they would like to increase their service, for example to a half miner's inch, Staff will process the new service at an increase of $63 per season for the additional consumptive use.

Director Wilcox asked if the half miner's inch service truly has reduced service costs.

Mr. Close stated that the screening devices in front of the boxes do a decent job of screening debris, but the smaller debris tends to clog up the quarter miner's inch orifice more frequently.

Mr. Close pointed out that there may be a concern that the District is promoting increased water usage. What he has discovered is that a majority of the District's customers have a holding tank, a float system, or some mechanism to shut the water off when not in use. He does not foresee usage increasing that much by eliminating the quarter miner's inch service.

President Weber requested that information be contained in the letter informing customers that if the quarter miner's inch service is cancelled, the customer will not be able to reapply for that service.

Mr. Close stated that this information is spelled out in the letter.

Approved the elimination of the quarter miner's inch allotment for future sales. M/S/C Drew/Morebeck, unanimously approved

CASCADE SHORES PHASE V FINAL ASPHALT PAVING PROJECT – Award of Contract No. M2016-02

Brian Powell, Maintenance Manager, stated that the asphalt paving for the Cascade Shores Phase V Project needs to be completed as soon as possible before the weather changes. This is the final Phase for a large Project and is a huge accomplishment.

Director Drew stated that this Project provides fire protection for the Cascade Shores community.

Mr. Powell stated that three bids were received:

Bid From:	**Bid Amount:**
Central Valley Engineering & Asphalt, Inc.	***$184,000***
Baldoni Construction Service, Inc.	$191,000
Simpson & Simpson, Inc.	$196,250

Awarded Contract No. M2016-02 (Project 1003) to Central Valley Engineering and Asphalt, Inc. in the amount of $184,000 for the Cascade Shores Phase V Final Asphalt Paving Project, and authorized the General Manager to execute the necessary documents. M/S/C Wilcox/Miller, unanimously approved

GUEST COMPUTER – Board of Directors

Rem Scherzinger, General Manager, announced that a guest computer and printer have been set up for the Directors to use in the General Manager's Conference Room.

WATER STORAGE AND CONSERVATION – Update

Rem Scherzinger, General Manager, reported that the District has a little more than 200,000 acre feet of water in storage. Rollins Reservoir is being drawn down due to the Drum outage.

Mr. Scherzinger provided a handout to the Directors regarding the State's drought outlook. Northern California is in a persistent drought. The three month outlook (November/December/January) is forecasted to have 30 to 40 percent higher temperatures and below normal precipitation.

COMBIE CANAL PHASE I AND BEAR RIVER SIPHON REPLACEMENT PROJECT – Request for Qualifications (RFQs)

Rem Scherzinger, General Manager reported that nine contractors have submitted RFQs for the Project.

STATUS ON PROJECTS

Rem Scherzinger, General Manager, reported that Rock Creek, Cascade Shores and the Newtown Projects are progressing nicely.

RECREATION SEASON

Rem Scherzinger, General Manager, reported that the Recreation season is officially over. This past season, the District has been operating an additional eight campgrounds in the Upper Division. The District continues to work with the US Forest Service.

Requests by the District to the Concessionaire at Greenhorn Campground have been made for repairs to the sewer system.

SOUTH WOLF CREEK – Meeting

Director Miller reported that the South Wolf Creek has not been dry for the past 22 years. Last summer, there was a brief period where the Creek went dry. This summer, it has been dry since the end of July. Director Miller, the General Manager and the Operations Manager met with property owners to review the matter at hand. The Department of Water Resources indicates that South Wolf Creek is an intermittent stream, and Staff informed Director Miller that the District's tail races have maintained the Creek over the years.

Staff came up with a resolution to seek relief by selling demand water to a property owner that resides along the Creek and has goats, horses, etc. This complies with the District's Rules and Regulations.

Director Wilcox asked what the definition is of demand water.

Rem Scherzinger, General Manager, explained that a customer has requested a block of water for 10 day period.

Director Drew pointed out that all rivers, creeks and ponds would be bone dry were it not for the District's and PG&E's systems.

MARIJUANA CULTIVATION – Nevada County Ordinance

Director Miller stated that the District should be a part of the County's Marijuana Cultivation Ordinance via the Environmental Impact Report (EIR) process to support the District's watershed.

President Weber thought that Director Miller's idea about requesting mitigation measures via the County's EIR is one way to restore some of the District's waterways that will dry up because of the lack of water. It will be necessary to work closely with the County on this matter.

PLACER COUNTY FARM BUREAU – Meeting

Director Morebeck reported that he provided a presentation on the District's proposed Centennial Reservoir Project and a water update to the Placer County Farm Bureau.

LINCOLN OPEN SPACE COMMITTEE – Meeting

Director Morebeck reported that he will be attending the Lincoln Open Space Committee meeting this evening.

CASCADE SHORES PIPELINE PROJECT – Compliment

President Weber reported that there was a message on her telephone from Mr. Penter in the Cascade Shores area. He complimented the Maintenance Department on the installation of the pipeline in Cascade Shores. He recently moved to the area from Ohio, where he lived near one of the great lakes. His water rates were higher in Ohio compared to this area. He complimented the District for maintaining the water rates.

SIERRA NEVADA ALLIANCE – Conference

President Weber reported that on August 26, 2016, she attended the Sierra Nevada Alliance Conference – the session on Forest Management. She is discouraged and frustrated because she is tired of attending meetings on this subject and hearing what needs to be done is studies and more studies. She asked if the District is going to conduct a study with the Sierra Nevada Conservancy.

Rem Scherzinger, General Manager, stated that he shares President Weber's frustration. The District will be working on a study with the Sierra Nevada Conservancy at Scotts Flat involving 10 plot areas that will be monitored for the next 20 years for water quality, water quantity, fire suppression, watershed health, etc. Another study will be conducted at English Meadows.

President Weber asked that a presentation be made to the Board on forestry management in the near future.

CALIFORNIA ENVIRONMENTAL QUALITY ACT (CEQA) – Workshop

President Weber announced that a workshop covering the topic of CEQA will be held on Wednesday, September 28 between 8:30 a.m. and 4:30 p.m. This workshop is sponsored by the District and the Planning Conservation League, and is open to non-governmental organizations and public agencies.

CLOSED SESSION was declared at 11:00 a.m. pursuant to Government Code Section 54956.8 to confer with Real Property Negotiators Scherzinger, Sommers, Sindt and/or Meith regarding price and terms of payment for acquisition and sale of rights in real property; properties subject to negotiations:

- South Yuba Canal, Chalk Bluff Canal, Deer Creek Powerhouse; flowage/wheeling rights in Drum Canal, Bear River Canal, Wise Canal, and South Canal (all owned by PG&E)
- Flowage Rights in Bowman-Spaulding Canal, Fall Creek Flume, Dutch Flat Flume, and Chicago Park Flume; right to storage in Rollins Reservoir (all owned by NID)

Persons with whom negotiations will be conducted: PG&E Management.

MEETING RECONVENED in regular session at 11:12 a.m.

MEETING ADJOURNED at 11:12 a.m. to reconvene in regular session on October 12, 2016, at 9:00 a.m. at the District's main office located at 1036 W. Main Street, Grass Valley, California.

Board Secretary

Attest a true record of actions had and taken at the above and foregoing meeting our presence thereat and our consent thereto.

Director Division I

Division II

Division III

Division IV

Division V