TO: BOARD OF DIRECTORS

FROM: MICHAEL LEBRUN *MSL*

DATE: APRIL 23, 2010

AGENDA ITEM
E-1
APRIL 28, 2010

RECEIVE ACTUARIAL VALUATION REPORT ON OTHER POST-EMPLOYMENT BENEFITS (OPEB)

ITEM

Receive actuarial valuation report on Other Post-Employment Benefits (OPEB). [RECEIVE AND FILE].

BACKGROUND

In 1990, NCSD adopted Resolution No. 426 to contract with CALPERS for health insurance coverage for its employees. The Resolution stipulates the District will contribute the total amount of insurance premiums for employees and retirees and their dependents.

On December 14, 2005, NCSD adopted Resolution 2005-959 to set a health benefits vesting requirement for future retirees. This action was taken to limit the District's financial liability for post-retirement medical insurance. The amendment requires vesting for employees before retirement medical benefits are 100% employer paid. This vesting applies to all employees hired on or after February 1, 2006. The vesting requires the retiree to have worked 20 years under the CALPERS system, including at least 5 with the District.

Retiree medical benefits are unlike the pension benefit because there is no funding plan. CALPERS pension is funded through monthly employer contributions and the investment gains of the plan. There is a concern for all government agencies on how they will fund future medical benefits to retirees. These are known as "Other Post Employment Benefits" (OPEB). The only OPEB NCSD provides is medical, however, OPEB can include medical, dental, vision and life insurance.

Most government agencies funded these OPEB through annual operating income without consideration of the future liability of these expenses. This is often referred to as the "pay-as-you-go" method. This led the Governmental Accounting Standards Board (GASB) to adopt Statement No. 45 that requires State and local governments to recognize and display OPEB expenses and related liabilities on their financial reports (audits). GASB No. 45 became effective for periods beginning after December 15, 2008, for governments with less than $10M in total annual revenues. NCSD began complying with GASB No. 45 in FY 2008-2009.

On April 30, 2008, the Board of Directors adopted Resolution 2008-1078, *Approving Agreement and Election to Prefund Other Post Employment Benefits through CALPERS and Certification of OPEB Funding Policy and GASB 43/45 Reporting Compliance*. NCSD joined the California Employers' Retiree Benefit Trust (CERBT) Fund, which is a Section 115 Trust set up for the purpose of receiving employer contributions that will prefund health and other post employment benefit costs for retirees and their beneficiaries. By joining this trust fund, NCSD can help finance future costs in large part from the investment earnings provided by CERBT.

There are several advantages to prefunding these OPEB with CERBT:

- Prefunding allows an agency to make actuarially-determined periodic contributions to partially or completely fund future obligations
- Earnings on assets reduce employer contributions
- Investment return assumptions, known as discount rate assumptions, will be higher, making annual expense and unfunded liability lower
- Prevents your net obligation from becoming a significant liability on your balance sheet
- Can contribute to a positive credit rating
- Enhances financial security for retirees.

All CERBT members are required to have an actuarial valuation completed every two years.

The Finance and Audit Committee has reviewed the draft report prepared by The Epler Company.

Ms. Jones will present a Power Point presentation on her findings as well as answer questions on the Actuarial Valuation Report.

RECOMMENDATION

Staff recommends that your Honorable Board to accept the Actuarial Valuation as of January 1, 2010 and forward the findings to CERBT.

ATTACHMENTS

- Power Point Presentation
- Actuarial Valuation

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Nipomo Community Services District

Retiree Health Program
Updated GASB 45 Actuarial Valuation
January 1, 2010

Prepared by
The Epler Company
April 28, 2010

Nipomo Community Services District
Purpose of Actuarial Valuation

- Estimate Updated Liability for Retiree Health Benefits
- Determine Accounting Requirements Under GASB 45 Applicable to Retiree Health Benefits

Nipomo Community Services District
GASB 45 Requirements

- Accrual accounting versus cash (PAYGO) accounting
- Disclosure of unfunded accrued liability & funded status; does NOT require funding
- Actuarial valuation of District's liability for retiree health benefits (& subsequent valuation at least every 2 years)

Nipomo Community Services District
Retiree Health Benefits

- District Participates in the CalPERS Health Program (a community-rated plan) for Retiree Medical Benefits
  - District exempt from valuing any rate subsidy
  - Rate subsidy typically exist when active & non-Medicare retirees receive benefits from same plan at same costs
- District Provides Medical Benefits to Retirees & Eligible Dependents for Life (Medicare enrollment is required)
- Eligibility: Retirement From District and PERS (Typically, on or after age 50 with at least 5 years of service)
- District's Contribution:
  - 100% for employees hired prior to February 1, 2006
  - 50% for employees hired on or after February 1, 2006 who retire with 10 years of service plus 5% for each additional year of service (to 100%)

Nipomo Community Services District
Background Information

- As of Measurement Date:
  - 12 active employees eligible for health benefits
  - 4 retirees currently receiving health benefits
- 2010/2011 Expected Payments (District contributions) for Retiree Health Benefits = $51,000
- Funding: In 2008, the District commenced pre-funding retiree health benefits through the CalPERS Employers' Retiree Benefit Trust (CERBT)

Nipomo Community Services District Actuarial Valuation

- Project Retiree Health Contributions Expected to be Paid by the District for Future Year (Projected Cash Flows)
  - Demographic assumptions: e.g. mortality, withdrawal, retirement
  - Financial assumptions: e.g. discount (interest rate), healthcare costs, healthcare trend
- Discount Projected Cash Flows to Measurement Date to Determine Present Value of District's Retiree Health Contributions
- Allocate Present Value to Past, Future & Current Period Using Actuarial Cost Method

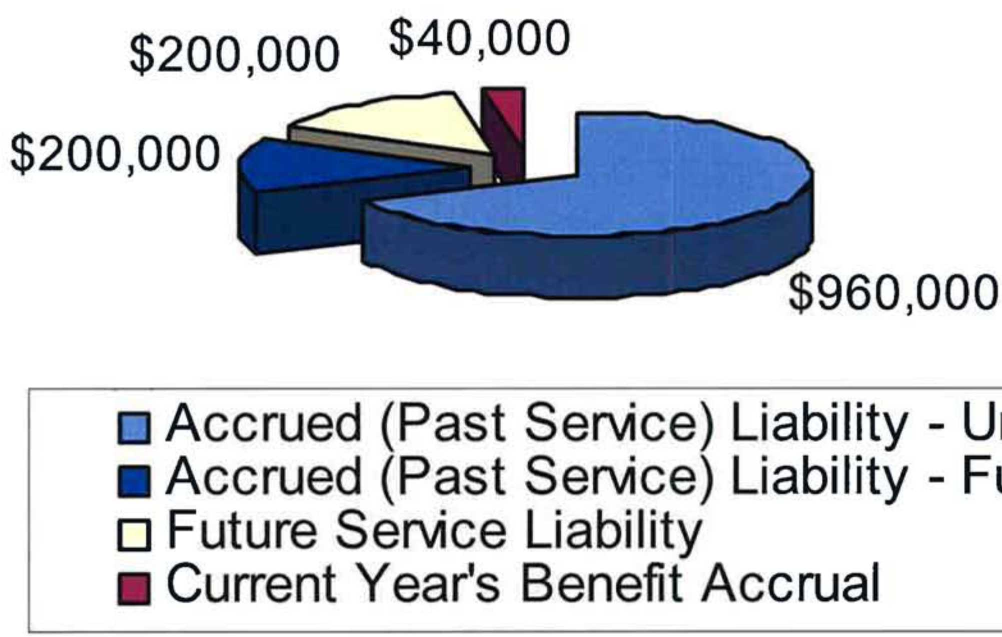
Nipomo Community Services District

Total Projected District Paid Retiree Health Benefits = $7.8M

Present Value of District Paid Retiree Health Benefits* = $1.4M

Accrued or Past Service Liability* = $1.160M

($200K pre-funded in trust, $960K unfunded)



*Based on discount rate of 7.75%

Nipomo Community Services District GASB 45 Valuation Results

- Disclose Unfunded Actuarial Accrued Liability (UAAL) = $960,000
- Accrual Expense: Annual Required Contribution (ARC) = $102,000 (vs. prior valuation ARC of $113,000)
  - Current Year's Benefit Accrual* = $42,000 Plus
  - Amortization (over 28 years) of UAAL = $60,000
- Current Year Expected District Payments for Retiree Health Benefits = $51,000
- Difference Accumulates as Additional Liability on Financial Statement

*Includes interest to end of period

Nipomo Community Services District
Sensitivity Analysis

- Current Discount Rate = 7.75% (Based on CalPERS expected return on plan assets in CERBT)
- Impact of Discount Rate Changes on ARC
  - 1% increase to 8.75%: $102K to $ 92K
  - 1% decrease to 6.75%: $102K to $115K
  - Decrease to 6.0%: $102K to $128K

Questions

The Epler Company
BENEFITS AND COMPENSATION CONSULTANTS AND ACTUARIES

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REVISED

April 22, 2010

PRIVATE

Ms. Lisa Bognuda
Assistant General Manager
Nipomo Community Services District
P.O. Box 326
148 South Wilson Street
Nipomo, CA 93444

Re: GASB Actuarial Valuation of Retiree Health Program

Dear Ms. Bognuda:

We are presenting our report of the January 1, 2010 actuarial valuation of the Nipomo Community Services District (the "District") retiree health program. The purpose of the valuation is to measure the District's liability for retiree health benefits and to determine the District's accounting requirements under the Government Accounting Standard Board Statements No. 43 & No. 45 (GASB 43 & GASB 45) in regard to unfunded liabilities for retiree health benefits.

We have set forth the results of our study in this report and are available to answer any questions the District may have concerning the contents of the report.

Sincerely,
THE EPLER COMPANY

Marilyn K Jones, ASA, MAAA, EA, FCCA
Vice President and Actuary

MKJ:rl
Enclosure

As required by U.S. Treasury Regulations governing tax practice, IRS Circular 230 Tax Advice Disclaimer, you are hereby advised that any written tax advice contained herein was not written or intended to be used (and cannot be used) by any taxpayer for the purpose of avoiding penalties that may be imposed under the U.S. Internal Revenue Code.

REVISED

Nipomo Community Services District

Retiree Health Program
GASB Actuarial Valuation

As of January 1, 2010

Prepared by:

The Epler Company
450 "B" Street. Suite 750
San Diego. CA 92101
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April 2010

The EPLER Company

Nipomo Community Services District
Retiree Health Program
GASB Actuarial Valuation
As of January 1, 2010

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Section I. Executive Summary

Background

The Nipomo Community Services District (the "District") selected The Epler 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 determine 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.

The District currently provides a contribution for the continuation of medical benefits through the CalPERS Health Program to 4 retired employees. In addition. 12 active employees are earning service credit towards eligibility for a District contribution towards their medical benefits at retirement. In general. to be eligible for retiree medical benefits an employee must retire from PERS on or after age 50 with at least 5 years of District service. For employees hired prior to February 1. 2006. the District's financial obligation is to pay 100% of the cost of coverage for the eligible retiree and any covered dependents. For employees hired on or after February 1. 2006. the District's contribution percentage is based on the employee's years of CalPERS eligible service at retirement starting at 50% for employees with 10 years increasing by 5% per year of service to 100%. The District's maximum contribution is based on this contribution percentage applied to the average weighted premium rates established annually by CalPERS. Section V of the report details the plan provisions that were included in the valuation and the current premium cost for coverage.

Results of the Retiree Health Valuation

We have determined that the amount of the actuarial liability for the District's retiree health benefits program as of January 1. 2010, the measurement date. is $1.402.420. This value is based on a discount rate of 7.75% which assumes the District continues to pre-fund for retiree health benefits through a GASB eligible trust. The amount represents the present value of all contributions 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 7.75% per year. and all other actuarial assumptions were exactly met. the fund would have exactly enough to pay all expected contributions. This includes contributions 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 $1.157.759, the current service component (normal cost or current year accrual) is $39.380 and the future service component (not yet accrued liability) is $205.281.

Changes from Prior Valuation

The results of the valuation reflect the impact of the District pre-funding through a GASB eligible trust which resulted in a change in the discount rate assumption from 5.0% to 6.0%. Otherwise all other assumptions and methods remain the same as in the prior valuation. In addition. the results reflect updated census and premium costs. A reconciliation of the approximate changes in the liability from the prior valuation is provided below:

	TOTAL
January 1. 2008 Valuation @5%	**$1.963M**
Change in discount rate to reflect policy to pre-fund through CERBT. a GASB eligible trust	($ 0.808M)
January 1. 2008 Valuation @7.75%	**$1.155M**
Increase due to passage of time	$0.054M
Decrease due to average the District contribution less than assumed	($0.048M)
Net increase due to demographic loss	$0.190M
Increase due to new entrants	$0.051M
January 1. 2010 Valuation @7.75%	**$1,402M**

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 in CERBT as of December 31. 2009 is $200.164. The unfunded actuarial accrued liability at January 1. 2010 is $957.595.

Annual Required Contribution

The annual required contribution (accrual expense) based on a measurement date of January 1. 2010 is $102.298. The $102.298 is comprised of the present value of benefits accruing in the fiscal period (normal cost) plus a 28-year amortization (on a level-percentage of pay basis) of the unfunded actuarial accrued liability (past service liability). The net OPEB obligation at the end of the upcoming fiscal period will reflect any actual contributions made by the District during the period for retiree health benefits including any pre-funding amounts.

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 22%.

Another key assumption used in the valuation is the discount rate which is based on the expected rate of return of plan assets. The valuation is based on a discount rate of 7.75%. A 1% decrease in the discount (interest) rate would increase the annual required contribution by 13%. A 1% increase in the discount (interest) rate would decrease the annual required contribution by 10%. The discount rate for this valuation is based on the CERBT requirement of 7.75% for plans fully funding their ARC through the trust. If the CERBT requirement was lowered to 6.0%, the District's ARC would increase from $102,298 to $127,589.

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. It is our understanding that the District participates in a community-rated health plan (CalPERS Health Plan) and is exempt from valuing this rate subsidy. Typically, inclusion of the rate subsidy will result in significantly larger liabilities and expensing requirements.

Section II. Financial Results

A. Valuation Results as of January 1, 2010 (Measurement Date)

The table below presents the employer liabilities associated with the District's retiree health benefits program determined in accordance with GASB 43 & 45. The actuarial liability (AL) is the present value of the District contributions projected to be paid under the program. The actuarial accrued liability (AAL) reflects the amount attributable to the past service of current employees and retirees. The normal cost reflects the accrual attributable for the current period. The results were determined using a 7.75% discount rate.

1. Actuarial Liability (AL)	
Actives	\$ 700.601
Retirees	701,819
Total AL	\$1.402.420
2. Actuarial Accrued Liability (AAL)	
Actives	\$ 455.940
Retirees	701,819
Total AAL	\$1.157,759
3. Normal Cost	\$ 39,380
No. of Active Employees	12
Average Age	45.6
Average Past Service	8.7
Estimated Payroll	\$ 638.000
No. of Retired Employees	4
Average Age	64.8

B. Development of Unfunded Actuarial Accrued Liability

The table below presents the development of the unfunded actuarial accrued liability. The unfunded actuarial accrued liability (UAAL) is the excess of the actuarial accrued liability (AAL) over the actuarial value of eligible plan assets[1]. Eligible assets under GASB 45 must be segregated and secured for the exclusive purpose of paying for the retiree health benefits.

1. Actuarial Accrued Liability (AAL)	$1.157,759
2. Actuarial Value of Assets[1]	(200,164)
3. Unfunded AAL (UAAL)	$ 957.595

C. Amortization of Unfunded Actuarial Accrued Liability

The amortization of the UAAL component of the annual contribution (ARC) is being amortized over a period of 28 years on a level-percentage of pay basis.

1. Unfunded AAL (UAAL)	$957,595
2. Amortization Period	28
3. Amortization Factor	15.99555
4. Amortization of UAAL	$59.866

D. Annual Required Contribution (ARC)

The table below presents an estimate of the annual required contribution under GASB.

1. Normal Cost at End of Period	$ 42.432
2. Amortization of UAAL	59,866
3. Annual Required Contribution (ARC)	$102,298
4. Estimated Payroll	$638.000
5. Normal Cost as % of Payroll	6.6%
6. Amortization of UAAL as % of Payroll	9.4%
7. ARC as % of Payroll	16.0%

[1] The District reported a market value of plan assets of $200,164 at December 31, 2009.

E. Required Supplementary Information (Funding Progress @January 1, 2010)

The table below presents a sample disclosure of the funding progress as of the beginning of the fiscal year.

1. Actuarial Accrued Liability (AAL)	$1,157,759
2. Actuarial Valuation of Assets (AVA)	(200,164)
3. Unfunded Actuarial Accrued Liability (UAAL)	$ 957,595
4. Funded Ratio	17%
5. Estimated Payroll	$ 638.000
6. UAAL as Percentage of Covered Payroll	150%

F. Sensitivity Analysis:

The impact of a 1% decrease or increase in the discount (interest) rate on the District's actuarial liability, actuarial accrued liability, unfunded actuarial accrued liability and the annual required contribution is provided below:

1% Decrease in Discount Rate	Dollar ($) Increase	Percentage (%) Increase
- Actuarial Liability	$243.873	17%
- Actuarial Accrued Liability	$163.244	14%
- Unfunded Actuarial Accrued Liability	$163.244	17%
- Annual Required Contribution (Expense)	$ 13,188	13%

1% Increase in Discount Rate	Dollar ($) Decrease	Percentage (%) Decrease
- Actuarial Liability	($191.906)	(14%)
- Actuarial Accrued Liability	($133.707)	(12%)
- Unfunded Actuarial Accrued Liability	($133.707)	(14%)
- Annual Required Contribution (Expense)	($ 10.629)	(10%)

Section III. Projected Cash Flows

The valuation process includes the projection of the expected contributions to be paid by the District under its retiree health benefits program. This expected cash flow takes into account the likelihood of each employee reaching age for eligibility to retire and receive health benefits. The projection is performed by applying the turnover assumption to each active employee for the period between the valuation date and the expected retirement date. Once the employees reach their retirement date. a certain percent are assumed to enter the retiree group each year. Employees already over the latest assumed retirement age as of the valuation date are assumed to retire immediately. The per capita cost as of the valuation date is projected to increase at the applicable healthcare trend rates both before and after the employee's assumed retirement. The projected per capita costs are multiplied by the number of expected future retirees in a given future year to arrive at the cash flow for that year. Also. a certain number of retirees will leave the group each year due to expected deaths and this group will cease to be included in the cash flow from that point forward. Because this is a <u>closed-group</u> valuation, the number of retirees dying each year will eventually exceed the number of new retirees. and the size of the cash flow will begin to decrease and eventually go to zero.

The expected employer cash flows for selected future years are provided in the following table:

Projected Employer Cash Flows Representative Years

Fiscal Year	Future Retirees	Retired Employees	Total
2010/11	$ 2,230	$ 48,428	$ 50,658
2011/12	$ 4,992	$ 51,837	$ 56,829
2012/13	$ 8,155	$ 55,185	$ 63,340
2013/14	$ 10,947	$ 56,987	$ 67,934
2014/15	$ 14,170	$ 58,550	$ 72,720
2015/16	$ 17,891	$ 59,954	$ 77,845
2016/17	$ 21,856	$ 61,061	$ 82,917
2017/18	$ 27,339	$ 59,492	$ 86,831
2018/19	$ 33,431	$ 56,174	$ 89,605
2019/20	$ 40,265	$ 56,375	$ 96,640
2020/21	$ 47,926	$ 58,024	$ 105,950
2021/22	$ 55,507	$ 59,626	$ 115,133
2022/23	$ 63,741	$ 61,161	$ 124,902
2023/24	$ 71,079	$ 62,615	$ 133,694
2024/25	$ 77,589	$ 63,975	$ 141,564
2025/26	$ 85,617	$ 59,647	$ 145,264
2026/27	$ 93,133	$ 54,973	$ 148,106
2027/28	$ 97,539	$ 55,523	$ 153,062
2028/29	$ 102,630	$ 55,931	$ 158,561
2029/30	$ 107,932	$ 56,187	$ 164,119
2030/31	$ 112,467	$ 56,267	$ 168,734
2031/32	$ 118,218	$ 56,139	$ 174,357
2032/33	$ 121,390	$ 55,776	$ 177,166
2033/34	$ 124,716	$ 55,164	$ 179,880
2034/35	$ 130,221	$ 54,306	$ 184,527
2035/36	$ 134,760	$ 53,212	$ 187,972
2036/37	$ 139,087	$ 51,881	$ 190,968
2037/38	$ 143,566	$ 50,301	$ 193,867
2038/39	$ 145,766	$ 48,472	$ 194,238
2039/40	$ 147,297	$ 46,411	$ 193,708
2040/41	$ 149,545	$ 44,144	$ 193,689
2045/46	$ 139,108	$ 30,980	$ 170,088
2055/56	$ 105,075	$ 8,171	$ 113,246
2065/66	$ 54,997	$ 0	$ 54,997
2075/76	$ 21,757	$ 0	$ 21,757
2085/86	$ 6,241	$ 0	$ 6,241
2095/96	$ 0	$ 0	$ 0
All Years	$ 5,669,950	$2,105,457	$ 7,775,407

Section V. Benefit Plan Provisions

This study analyzes the retiree health benefits of the District. The retiree health benefits provided to retirees are basically a continuation of the medical plans for active employees. Eligible employees are offered a choice of medical (including prescription drug coverage) plans through the CalPERS Health Program under the Public Employees' Medical and Hospital Care Act (PEMHCA). Our findings and assumptions are based on the plans and rates effective January 1. 2010.

Employees Hired Prior to February 1, 2006

Eligibility for medical coverage requires retirement from the District and CalPERS with at least 5 years of District service. Eligible employees must be covered under the CalPERS Health Plan at the time of retirement. The District pays 100% of the cost of coverage for the eligible retiree and covered dependents.

Employees Hired On or After February 1, 2006

Eligibility for medical coverage requires retirement from the District and CalPERS with at least 5 years of District service. Eligible employees must be covered under the CalPERS Health Plan at the time of retirement. The District pays an amount each year that is based on the average of the health plan premiums available to District employees through the CalPERS Health Program. Any premium costs above this amount are paid for by the employee. The District's contribution requires at least 10 years of CalPERS eligible service (at least 5 years of which is with the District). The District's contribution is based on years of service as follow:

CalPERS Service	District's Contribution	CalPERS Service	District's Contribution
10 Years of Service	50%	16 Years of Service	80%
11 Years of Service	55%	17 Years of Service	85%
12 Years of Service	60%	18 Years of Service	90%
13 Years of Service	65%	19 Years of Service	95%
14 Years of Service	70%	20+ Years of Service	100%
15 Years of Service	75%		

Upon the death of a retiree. a surviving spouse of the retiree may continue coverage and receive a District contribution at the retiree rate.

Premium rates

The District participates in the CalPERS Health Program. a community-rated program, for its medical coverage. The following tables summarize the current monthly medical premiums available to eligible retirees. All premiums are effective for the calendar year.

2010 Other So. Cal. Region (unless noted)	Kaiser	BS HMO	BS NVP HMO	PERS Care	PERS Choice	PERS Choice OOS
Retiree Only	$454.99	$485.29	$420.59	$806.89	$472.83	$579.58
Retiree Plus Spouse	$909.98	$970.58	$841.18	$1,613.78	$945.66	$1,159.16
Retiree Only- Medicare	$298.36	$299.53	$299.53	$410.60	$356.09	$356.09
Retiree Plus Spouse – Medicare	$596.72	$599.06	$599.06	$821.20	$712.18	$712.18
Retiree Plus Spouse - Mixed	$753.35	$784.82	$720.12	$1,217.49	$828.92	$935.67

Section VI. Valuation Data

Active and Retiree Census

The valuation was based on the census furnished to us by the District. The following tables display the age distribution for retirees and the age/service distribution for active employees as of the Measurement Date.

Age Distribution of Eligible Retired Participants & Beneficiaries

	Count
<55	0
55-59	2
60-64	0
65-69	1
70-74	0
75+	1
Total:	4
Average Age:	64.8
Average Retirement Age:	NA

Age/Service Distribution of Active Participants

	Service									
Age	0-4	5-9	10-14	15-19	20-24	25-29	30-34	35-39	40-44	Total
20-24	1									1
25-29	0									0
30-34	0	1								1
35-39	1	0								1
40-44	1	1								2
45-49	1	0	0	1						2
50-54	1	0	1	0		0				2
55-59	1	0	0	1		0	0			2
60-64	0	0	0	0	1	0	0	0		1
65+	0	0	0	0	0	0	0	0	0	0
Total:	6	2	1	2	1	0	0	0	0	12

Average Age:	45.6
Average Service:	8.7
Payroll:	$638,000

Section VII. Actuarial Assumptions and Methods

The liabilities set forth in this report are based on the actuarial assumptions described in this section.

Fiscal Year: July 1st to June 30th

Measurement Date: January 1. 2010

Funding Policy: Fund the annual required contribution determined under GASB 45

Return on Assets: 7.75%

Discount Rate: 7.75%

Salary Increases: 3.25% per annum. in aggregate

Pre-retirement Turnover: According to the termination rates under the CalPERS pension plan. Sample rates for Miscellaneous employees are as follows:

	Entry Age			
Service	20	30	40	50
0	17.6%	16.2%	14.8%	13.5%
5	7.7%	6.3%	4.9%	1.3%
10	5.7%	4.4%	1.0%	0.5%
15	4.5%	3.1%	0.5%	0.1%
20	3.2%	0.4%	0.1%	0.0%
25	1.9%	0.1%	0.0%	0.0%
30	0.1%	0.0%	0.0%	0.0%

Note: 0.0% includes rates less than ½ of 1%.

Pre-retirement Mortality: According to the pre-retirement mortality rates under the CalPERS pension plan. Sample deaths per 1,000 employees applicable to Miscellaneous employees are as follows:

Age	Males	Females
25	0.3	0.1
30	0.4	0.2
35	0.5	0.3
40	0.8	0.5
45	1.1	0.7
50	1.6	1.0
55	2.2	1.5
60	3.1	2.3

Post-retirement Mortality: According to the post-retirement mortality rates under the CalPERS pension plan. Sample deaths per 1,000 employees applicable to Miscellaneous are as follows:

Age	Males	Females
55	4.3	2.5
60	7.2	4.4
65	13.0	8.0
70	21.4	12.8
75	37.2	21.6
80	62.6	38.8
85	102.0	72.2
90	173.8	125.9

Retirement Age: According to the retirement rates under the CalPERS pension plan. Sample retirement rates are as follows:

Age	Male	Female
50	5.0%	7.0%
51	2.0%	5.0%
52	3.0%	5.0%
53	3.0%	5.0%
54	4.0%	5.0%
55	8.0%	9.0%
56	7.0%	8.0%
57	8.0%	7.0%
58	9.0%	11.0%
59	11.0%	10.0%
60	19.0%	15.0%
61	17.0%	12.0%
62	31.0%	25.0%
63	26.0%	22.0%
64	18.0%	16.0%
65	30.0%	30.0%
66	17.0%	18.0%
67	14.0%	17.0%
68	15.0%	13.0%
69	11.0%	15.0%
70	100.0%	100.0%

Participation Rates: 95% of eligible active employees are assumed to elect medical coverage at retirement. Of those electing coverage, 100% of those electing coverage are assumed to elect HMO coverage. Actual plan coverage is used for current retirees.

Spouse Coverage: 85% of future retirees are assumed to be married with 90% electing coverage for their spouse. Male spouses are assumed to be 3 years older than female spouses. Actual spouse coverage and spouse ages are used for current retirees.

Average Premiums: The CalPERS average weighted premiums are assumed to increase based on the medical trend rates.

Claim Cost Development: The valuation claim costs are based on the premiums paid for medical insurance coverage. The District participates in the CalPERS Health Plan, a community rated plan. The valuation assumes the District is exempt from the valuation of any medical plan rate subsidy.

Medical Trend Rates: Medical costs are adjusted in future years by the following trends:

Year	PPO	HMO
2011	8.5%	8.0%
2012	8.0%	7.5%
2013	7.5%	7.0%
2014	7.0%	6.5%
2015	6.5%	6.0%
2016	6.0%	5.5%
2017	5.5%	5.0%
2018+	5.0%	5.0%

Actuarial Cost Method: The actuarial cost method used to determine the allocation of the retiree health actuarial liability to the past (accrued), current and future periods is the Entry Age Normal ("EAN") cost method. The EAN cost method is a projected benefit cost method which means the "cost" is based on the projected benefit expected to be paid at retirement.

The EAN normal cost equals the level annual amount of contribution from the employee's date of hire (entry date) to their retirement date that is sufficient to fund the projected benefit. For plans unrelated to pay, the normal cost is calculated to remain level in dollars; for pay-related plans the normal cost is calculated to remain level as a percentage of pay. The EAN actuarial accrued liability equals the present value of all future benefits for retired and current employees and their beneficiaries less the portion expected to be funded by future normal costs.

Actuarial Value of Assets: Any GASB eligible assets of the plan will be valued on a market value basis.

Amortization of UAAL: The unfunded actuarial accrued liability or surplus is being amortized over an initial 30 years using the level-percentage-of-pay method on a closed-basis. The remaining amortization period at January 1, 2010 is assumed to be 28 years.

Section VII. Actuarial Certification

The results set forth in this report are based on the actuarial valuation of the retiree health benefits program of the Nipomo Community Services District (the "District") as of January 1, 2010.

The valuation was performed in accordance with generally accepted actuarial principles and practices and in accordance with GASB Statements No. 43 & 45. We relied on census data for active employees and retirees provided to us by the District. We also made use of plan information. premium information, and enrollment information provided to us by the District.

The assumptions used in performing the valuation. as summarized in this report. and the results based thereupon. represent our best estimate of anticipated experience and actuarial cost of the retiree health benefits program.

I am a member of the American Academy of Actuaries and believe I meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

Certified by:

Marilyn K. Jones. ASA. EA. MAAA. FCCA Date: 4/22/10
Vice President and Actuary

TO: BOARD OF DIRECTORS

FROM: MICHAEL LEBRUN MBL

DATE: APRIL 23, 2010

AGENDA ITEM
E-2
APRIL 28, 2010

REVIEW DISTRICT'S DEVELOPMENT-RELATED FEE COLLECTION POLICY

ITEM

Discuss the timing of collection of water and sewer fees for new development. [DIRECT STAFF]

BACKGROUND

Your Honorable Board directed staff to provide an opportunity for review and discussion of District procedure for collection of supplemental water capacity charges. On December 16, 2009, your Board discussed fee collection and directed staff to further investigate the District's schedule of fee collection with consideration for delaying development-related fee collection across all categories of development.

On January 4, 2010, staff met with representatives of San Luis Obispo County Home Builders Association. HBA outlined the financial difficulties developers are experiencing paying District development fees due to changes in lending institution practices particular to development projects. District Policy requires a 100% payment of fees at the time a Will-Serve Letter is issued. The County requires a Will-Serve letter prior to filing a Final Tract Map. Recent changes in the lending and banking industry result in developers being unable to obtain building loans prior to the Tract Map filing.

The Home Builders Association of SLO County asked the District to consider issuing a Will- Serve Letter with a fee deposit and delaying the collection of fees until the issuance of a building permit by the County. On January 21, 2010, District staff and Legal Counsel met with County senior planning staff to discuss the potential for County verification of District fee payment prior to the issuance of a building permit. County staff indicated such a process would be possible by the inclusion of a District-wide 'flag' on all parcels that would trigger District fee verification prior to building permit issuance. The County currently performs a similar service of fee collection for school districts.

District fees include connection and capacity charges and are set to represent a buy-in to existing infrastructure and cost of developing additional resources and infrastructure to serve the new development. Delaying fee collection, or a portion of fee collection, on new development, in the current financial climate, would not be expected to have a significant fiscal impact on the District. However, during aggressive development climates, a delay in fee collection over a prolonged period could substantially limit the District's ability to pursue new resources and capacity. Typically, sewer treatment and water resource projects take much longer to develop than do commercial and residential projects.

Additional concerns staff has identified include:

- Issuance of a Will-Serve letter, which commits the District - with very little recourse and no expiration - to supplying a future development without the collection of fees is problematic and could foreseeably result in legal challenge to the District.
- Relying on another agency, in this case the County, to insure those fees are collected is problematic. If County staffing is significantly reduced due to budgetary constraints, would confirmation of District fee payment remain a priority to the County?
- The change in procedure could lead to a request for service prior to the District's acceptance of development infrastructure.
- The change in procedure could lead to an unaware buyer being sold a lot where substantial fees are due.

These issues were discussed at your January 27, 2010 Regular Board Meeting. At that time your Board expressed concern with relying on action by another agency to trigger collection of District fees. Your Board directed staff to conduct further investigation and attempt to provide a proposal to meet the HBA request without relinquishing District control of its fee collection process.

At the February 24, 2010 Board Meeting, staff identified a process whereby the District could delay fee collection to after the Will-Serve Letter yet prior to the District's acceptance of project improvements. The process would allow the developer to file a Final Map and obtain construction loans based on the development map. It would also allow the District to maintain control over the trigger for collection of connection fees (trigger would be District issuing a Ready-to-Serve Letter – which the County requires prior to issuing building permits).

At the February meeting, your Board heard additional testimony from representatives of Coast National Bank indicating construction loan funding is not available until project building permits are being sought and, therefore, a requirement to pay fees prior to that point would not provide the building industry with relief. (See attached Coast National letter.) Your Board directed staff to research a fee schedule whereby 20% of the fees are collected when the District issues a Will-Serve Letter and the remainder of fees are collected as building permits are drawn on the project.

Staff worked to resolve the conflicting needs and desires of the District and building industry – namely pushing fee collection out to the point where building loans are available, requires the District to rely on a fee-payment trigger administered by others (building permit issuance by the County). Staff developed a concept procedure which could be applied to subdivision projects that require Board approval.

A flow chart (attached) will be presented by staff to facilitate a discussion of the concept. The proposed procedure would include the issuance of a "Map Recordation", Will-Serve Letter, and subsequent Will-Serve letters for the newly-created parcels prior to building permit issuance. Additionally, recordation on title of the 'master' parcel and subsequent recordation and tracking of the newly created parcels specifying outstanding fees due to the District is proposed. A developer would *apply* for phased fee collection, and if the Board approved the application, an additional processing fee per new parcel created would apply to cover the additional costs of tracking and recordation. A percent of all fees (20% is recommended) and the tracking fee would be due prior to District issuing a Map Recordation Will-Serve. After the District accepts a developer's offer-of-dedication of 'off-site' improvements, the balance of fees for the project's common meters and meters for lots where building permits are being sought will be accepted and individual-lot Will-Serve letters will be issued. If the development project is sold as a whole at any point during the phasing, all outstanding fees become due.

It is further recommended that any ordinance delaying the collection of District fees include an automatic sunset and/or review clause to avoid undesired fiscal impact and risk to the District.

FISCAL IMPACT

Development of this material did use previously budgeted staff time and legal consulting cost.

RECOMMENDATION

Staff recommends that the Board consider and discuss the current District policy and direct staff.

ATTACHMENTS

- Coast National Bank Letter
- Simplified Flow Chart of Development Process

T:\BOARD MATTERS\BOARD MEETINGS\BOARD LETTER\2010\100428 FEE COLLECTION POLICY DISCUSSION.DOC

COAST NATIONAL BANK

April 2, 2010

Michael Lebrun
Nipomo Community Services District

Nipomo, Ca. 934

RE: Payment of fees for water and sewer services

Dear Mr. Lebrun,

Several senior bank officers attended two recent NCSD board meetings involving discussions over the timing of fee collection for tract maps. We are writing to reiterate remarks made by our Chief Operating Officer, Gwen Pelfrey, during the public comment portion of the meeting. The Bank supports/encourages a revision in the current fee collection process to more closely align the payment of fees to the cash flow stream generated by a subdivision.

In the current economy many development projects have become problematic to unbuildable; the reasons are multi-faceted. The brief paragraphs below touch on just a few of the broader issues creating this situation.

Since 2007 tract builders have experienced a significant loss in real estate equities which translates into a loss of borrowing capacity. In many cases the value of development property, even with entitlements, has declined 20-30% or more depending on geographic location. Further complicating the issue is the fact that builders are often holding completed but unsold inventory. Alternately, builders have development projects tied up in the lengthy planning process which is draining their cash flow and liquid assets. With limited cash reserves and reduced borrowing capacity the development community's ability to debt service property, continuing to fund costs for processing maps and installing required improvements has been severely eroded. Simultaneously builders are faced with a marketplace where existing properties can frequently be purchased for less than the current cost of new construction.

Lending institutions have, out of necessity and regulatory requirements, tightened their underwriting requirements; especially for borrowers engaged in real estate development. Developers are facing demands for higher equity investments in their projects. In addition, many lenders are no longer providing interest reserves to fund the debt service on projects during a period when developers are generating limited income, if any . Developers are also confronting a financial market where lenders are trying to reduce their concentrations in land, development and construction loans. The lending community, to the extent possible within regulatory and risk management constraints, has been working with developers to extend loan maturities, reduce interest rates and/or fees, and in some cases writing down loans or otherwise making reasonable concessions in an effort to keep projects viable. It is worth nothing that these efforts are not readily visible to the general public due to financial privacy, non-disclosure requirements and bank secrecy regulations.

The other critical players in the development process, local government agencies, have not been immune from the impacts of this severe recession either. In an effort to offset lost revenues many jurisdictions have found it necessary to raise fees or at least maintain fees at pre-recession levels. While the level of fees is always at issue, an equally pressing issue in this business cycle is the *timing* of fee collection. To offset the variety of issues noted previously the development community needs to more closely match the payment of fees to their revenue stream in order to maintain project viability. In this economy most projects must be phased over extended periods of time (years). Yet many agencies require payment of fees at recording of the map, if not sooner. This significantly drives up financing costs, erodes borrowing power and project viability, ultimately affects home prices and profitability (or lack thereof).

We believe our collective recovery from this recession is dependent upon business and government agencies working together to revive jobs and economic activity. The Nipomo Community Services District can play a significant role in this recovery process by delaying the collection of fees to more closely align them with the issuance of building permits.

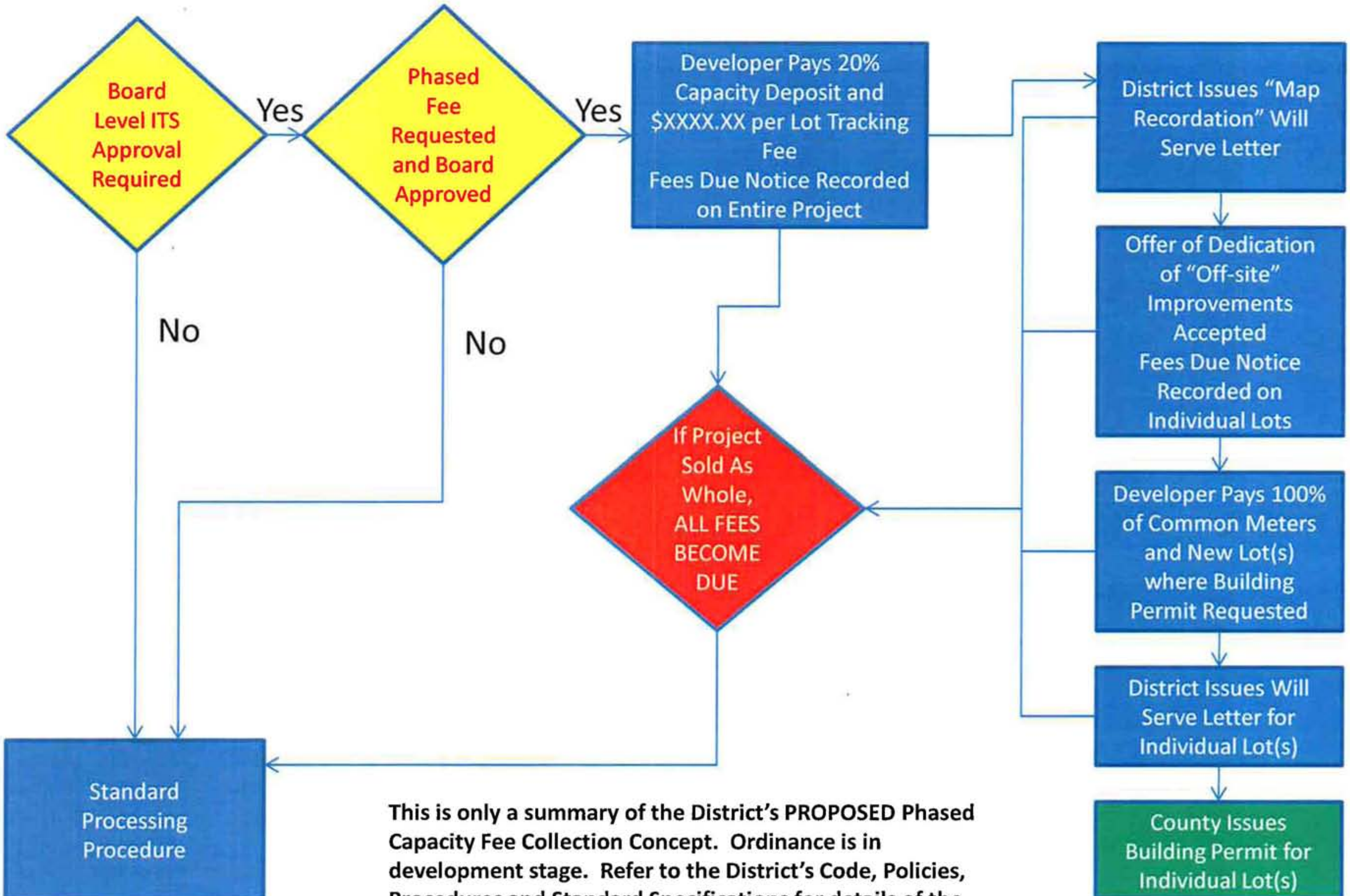
We have appreciated your willingness to listen and respond to the needs of the development and banking communities. We look forward to your reasoned judgment on this request.

Respectfully Yours,

Charles E. Fruit
Exec. V. P.
Community Development Dept. Mgr.

RECEIVED
APR 22 2010
NIPOMO COMMUNITY SERVICES DISTRICT

NCSD PHASED CAPACITY FEE COLLECTION CONCEPT



This is only a summary of the District's PROPOSED Phased Capacity Fee Collection Concept. Ordinance is in development stage. Refer to the District's Code, Policies, Procedures and Standard Specifications for details of the District's current requirements.

NCSD STANDARD PROCESSING PROCEDURE

This is only a summary. Refer to the District's Code, Policies, Procedures and Standard Specifications for details of the District's current requirements.