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TO: NCPA Finance Committee

FROM: Donna Stevener, AGM/CFO Finance/Administrative Services

SUBJECT: NCPA Finance Committee Meeting Minutes of November 10, 2015

Finance Committee Attendees:

Committee Members		**Attended:**
Gary Plass	Healdsburg	Call-in
Bob Orbeta	Alameda	Call-in
Jordan Ayers	Lodi	Call-in
Monty Hanks	Roseville	Call-in
Jan Pepper	Santa Clara	Call-in

NCPA Staff
Donna Stevener
Randy Howard
Sondra Ainsworth

Consultants	
Mike Berwanger	PFM
Rian Irani	PFM
Gene Carron	Orrick
Larry Sobel	Orrick
Michael Dean	Meyers Nave
Julie Desimone	Moss Adams

Public
None

1. & 2. Call Meeting to Order and Roll Call
Chairman Gary Plass called the meeting to order at 10:04 a.m. and roll call was conducted as listed above.

3. Approve Minutes of August 12, 2015
Minutes for the August 12, 2015 meeting were approved as presented.

1st Jan Pepper

2nd Bob Orbeta

Representative	*Member Org*	*Vote*
Gary Plass, Chairman	Healdsburg	Yes
Bob Orbeta	Alameda	Yes
Jordan Ayers	Lodi	Abstain
Monty Hanks	Roseville	Yes
Jan Pepper	Santa Clara	Yes

Voting Results: 4 Ayes, 0 Noes, 1 Abstain 0 Absent

PUBLIC FORUM

Mr. Plass asked if anyone wished to address the Committee on matters within the jurisdiction of the Committee. No one from the public was present at the site or at any of the teleconference locations.

REPORTS AND COMMITTEE ACTION ITEMS

4. Review and Approve Finance Committee Meeting Calendar for 2016

Ms. Stevener reminded the Finance Committee that a regular meeting calendar was established with regular meetings to be held on the 2nd Wednesday of February, May, August and November each year beginning at 10:00 a.m. Staff requested formal approval of the draft 2016 meeting calendar.

Motion: The 2016 Finance Committee meeting calendar was approved as presented.

1st Jordan Ayers

2nd Jan Pepper

Representative	*Member Org*	*Vote*
Gary Plass, Chairman	Healdsburg	Yes
Bob Orbeta	Alameda	Yes
Jordan Ayers	Lodi	Yes
Monty Hanks	Roseville	Yes
Jan Pepper	Santa Clara	Yes

Voting Results: 5 Ayes, 0 Noes, 0 Abstain 0 Absent

5. Review of June 30, 2015 Audited Financial Statements and Related Reports

Ms. Stevener introduced Ms. Julie Desimone, audit partner from Moss Adams, to present the audit report for fiscal year ended June 30, 2015. Ms. Desimone provided an update of the status of the audit. The audit is in the final review stages and should be finalized very soon. No significant changes are expected from the draft provided to the Finance Committee. Ms. Desimone indicated that this year everyone faced a big hurdle with the implementation of the new pension standard, GASB 68/71. CalPERS was extremely late in providing the needed data to make the required adjustments to the financial statements and prepare an additional 10 pages of disclosure to the financial report. She gave her thanks to the NCPA staff who did a good job understanding the standard and hustling to complete the financials after receiving the data very late.

Ms. Desimone reviewed a PowerPoint presentation with a report to the Finance Committee regarding the fiscal year 2015 financial audit. Ms. Desimone complimented NCPA staff on their preparedness for the audit and their open, responsive answers to all inquiries. Ms. Desimone indicated that staff is very knowledgeable. She indicated that the expected final results are a clean “unqualified” opinion, which is what you want. No adjusting entries were posted to the financial statements based on the audit work and there were no adjusting entries that were “passed” due to immateriality. In addition, Ms. Desimone indicated that no material weaknesses or significant deficiencies in the NCPA internal control systems were noted during their testing. She explained how they assessed internal controls and indicated that every year new audit procedures are applied based on the assessed risk of each audit area. This includes interviews with all levels of staff to talk about concerns and possible fraud. The biggest risk is usually cash, therefore they heavily tested cash disbursements and receipts. They found no instances of fraud or illegal acts during the audit.

Ms. Desimone discussed the auditor's responsibilities. She reminded the Committee that the auditors don't look at every transaction; they look at risks and then perform audit tests based on the risk assessment. Auditors need to obtain reasonable assurance on the financial statements as a whole. The financial statements belong to NCPA and they are drafted by staff. The auditor opinion is that the financial statements are free of material misstatement.

Ms. Desimone indicated management's accounting policies are described in Note B of the financial statements and that no aggressive or unusual accounting policies were used. The biggest change was the new GASB 68 pension policy that was implemented. She also said that estimates included in the financial statements are typical of the industry. There were no disagreements with management and no difficulties performing the audit. No other independent accountants were consulted, i.e. no "opinion shopping", and Moss Adams is independent in appearance and fact. Half of the audit team were rotated off the engagement with NCPA to provide a fresh perspective to the audit.

Ms. Desimone described the new accounting pronouncements that impacted the fiscal year 2015 financial statements, GASB 68/71. These new policies added $57 million of net pension liability to the "Statement of Net Position" and also added deferred inflows and outflows. The non-cash portion of the net liability was also included in regulatory assets. Because the data wasn't available from CalPERS for prior years, no prior period adjustments were made to implement the new pronouncements. Ms. Stevener asked about the data used and Ms. Desimone indicated that the last actuarial report from June 30, 2013 was used and then rolled forward to June 30, 2014 to book the liability entry. In addition, sensitivity analysis related to the rate of return was included in the footnotes. Ms. Stevener pointed out the pension estimate will change due to new assumptions regarding rate of return, etc. and a new actuarial report is expected in a few weeks from CalPERS. These changes will be reflected in the FY 2016 financials. Ms. Desimone also indicated that the footnote disclosure was expanded greatly, including 5 -6 new pages of disclosure in the footnote section and two new schedules that show 10-year data history as part of "Required Supplementary Information". Ms. Desimone noted that since only one year of data is currently available, the standards allow for presentation of the data as it becomes available over time.

Ms. Desimone then reminded the Committee that GASB 75 will be effective next fiscal year, which requires the same financial treatment and additional disclosures be applied to the Retiree Medical Plan Liability as was applied to pensions under GASB 68.

Ms. Desimone also indicated that they reviewed compliance with Debt and Investments and they were preparing compliance letters for the Commission, in addition to the audit opinion on the financial statements and internal control letters.

Motion: Recommend the Commission accept and file the June 30, 2015 audited financial statements and related letters.

1st Jan Pepper

2nd Gary Plass

Representative	*Member Org*	*Vote*
Gary Plass, Chairman	Healdsburg	Yes
Bob Orbeta	Alameda	Yes
Jordan Ayers	Lodi	Yes
Monty Hanks	Roseville	Yes
Jan Pepper	Santa Clara	Yes

Voting Results: 5 Ayes, 0 Noes, 0 Abstain 0 Absent

6. Review and Discussion of June 30, 2015 Post Employment Benefits Other than Pensions Actuarial Report

Ms. Stevener provided an overview of the recently received Retiree Medical Plan Actuarial report. Major changes included changes to the assumptions used in the liability calculation for increased health care costs, including the new "Cadillac tax", which is part of the Affordable Care Act; lower investment returns (7.61% down to 7.0%), longer mortality assumptions and other recommended changes from CalPERS. In addition, a change in the amortization method from a percent of payroll method, which allowed negative amortization of the liability to a level amortization method, which is more like a mortgage. Overall, the changes in various assumptions had the impact of increasing the actuarial liability from $22.5 million to $36.7 million, and the unfunded liability increased from $5.0 million to $14.4 million. Funding percentage dropped from 78.0% to only 60.7% and the annual contribution went from approximately $1.0 million to $2.3 million beginning in FY 2016, which is about $1.2 million over the FY 2016 budget.

Staff recommended consideration of a plan to stabilize the funding of the plan with three steps:

- Negotiate new health care premiums in future union negotiations to cap the exposure from health care increases that are expected to continue to increase substantially
- Shorten the amortization period of the unfunded liability from 28 years to 8 years in order to reach the desired 90% "healthy" funding percentage faster
  - This would change the annual contribution from $2.3 million to $3.5 million
- Conduct a new actuarial valuation for FY 2017 based on new health premiums and other updated assumptions and adjust the plan as necessary

The Committee expressed concerns over the large increase in annual contribution this proposed plan would require. In addition, the Committee discussed looking at alternative amortization periods that would be longer than 8 years, but shorter than 28 years. It was expressed that a glide path approach over a longer period was preferred. It was also expressed that covering the additional funding with budget savings and not filling positions to achieve the savings could have a detrimental impact on service levels to members.

Mr. Howard indicated that after vetting the plan with the Finance Committee, the plan would be included as part of the proposed FY 2017 operating budget. The Committee asked staff to run a few additional options, determine the impact by member and bring a revised recommendation back to the Committee well before it is presented as part of the proposed FY 2017 budget.

7. Annual Review of NCPA Investment Policy and Guidelines – Policy 200-100 and Delegation of Investment Duties to the Treasurer-Controller

Ms. Stevener told the Committee that a comprehensive review of the administrative policies was conducted in 2013 and in December 2013 a major revision of the NCPA Investment Policy was approved. The revised Policy requires an annual review and staff has conducted such a review and recommends no changes to the policy. Staff requests that the Finance Committee recommend to the Commission that no changes be made to the NCPA Investment Policy (200-100) at this time. In addition, staff is recommending that the annual delegation of investment duties to the Treasurer-Controller be renewed as required by Government Code.

Motion: Recommend that the NCPA Commission concur with staff recommendation that no changes be made to the NCPA Investment Policy and Guidelines – Policy 200-100 as part of the annual review process and confirm delegation to the Treasurer-Controller the authority to invest or reinvest funds of the Agency.

1st Jordan Ayers

2nd Bob Orbeta

Representative	*Member Org*	*Vote*
Gary Plass, Chairman	Healdsburg	Yes
Bob Orbeta	Alameda	Yes
Jordan Ayers	Lodi	Yes
Monty Hanks	Roseville	Yes
Jan Pepper	Santa Clara	Yes

Voting Results: 5 Ayes, 0 Noes, 0 Abstain 0 Absent

8. Report on Current Financial Market Conditions or Issues

Mr. Berwanger, PFM, reviewed a PowerPoint presentation that was provided to the Committee that included analysis on current financial market conditions, potential bond refundings and rating agency issues.

Mr. Berwanger indicated that by now he is sounding like a broken record regarding the current market conditions. Little has changed over the last six months in this report. Long-term rates remain near historic lows, and the same holds true for short-term rates. NCPA variable rate debt reset this week at one (1) basis point. It is a good time to be in the market for borrowing money. The focus of everyone is on what will the Fed do as to raising interest rates. Most economists expected a rate hike in September, but that didn't happen. The labor market and inflation continue to be the key indicators that the Fed is using to time the rate hike. Experts now expect that the December 15th meeting will be when they take action.

2015 has been a busier year than 2014 as to volume of municipal bond issuances. Over 66% of the issuances were refundings, which could mean 2016 will show a large decrease in issuances if interest rates rise and refundings are no longer economic. The municipal market continues to outperform the taxable market.

PFM presented an overview of NCPA's debt portfolio by project. NCPA has not received any viable refunding ideas from the banking team as most of the bonds have already been advance refunded the maximum amount of time. Based on analysis by PFM, there are very few callable bonds until 2018, 2019 or 2020. That said, advanced refundings would create a long escrow with negative arbitrage, making the refunding very inefficient at this time. If investment returns rise due to interest rate hikes, refunding escrows could become more efficient and opportunities may open up somewhat. The team continues to monitor the situation.

Mr. Howard asked about the sequestration of BABs interest subsidy and if the recent budget deal had any impact on the level of reimbursement for BABs. Mr. Sobel answered that the BABs sequestration hadn't been impacted by the recent budget deal.

Mr. Berwanger indicated that PFM had included in the handouts recent research papers from various rating agencies on such industry topics such as the Clean Power Plan, rising interest rates and the 50% RPS in California.

NEW BUSINESS

9. Other Items of Interest to the Finance Committee
No items were discussed.

10. Next Finance Committee Meeting
The next scheduled meeting is Wednesday, February 10, 2016 at 10:00 a.m. or sooner if needed.

CLOSED SESSION

11. CONFERENCE WITH LEGAL COUNSEL – ANTICIPATED LITIGATION
Significant exposure to litigation pursuant to paragraph (2) of subdivision (b) of Government Code section 54956.9: One case.

OPEN SESSION

General Counsel Michael Dean reported there was no reportable action taken on item 11.

ADJOURNMENT

Meeting was adjourned at approximately 11:25 am.