

## **Otay Water District Enhancement of Retirement Benefits Brief Summary**

- Otay Water District rates have increased by over 40% since January 1, 2009 for the average homeowner, with another 7.7% increased beginning in 2012.
- In spite of these increased costs, the Otay Water District board of directors recently approved an agreement that provides lifetime health and dental benefits for executives, managers, and supervisors, as well as their dependants.
- The agreement gives qualified employees:
  - A 7% salary increase between now and July 1, 2012;
  - Enhanced lifetime retiree healthcare and dental benefits;
  - Newly added healthcare and dental benefits (at 88% coverage) for the retiree's dependants.
  - Otay Water District managers can retire as early as age 55 with 15 years of service to receive this benefit.
- SDCTA review of the financial analysis shows the change will result in:
  - An additional cost to the District of \$141,250 for FY 2012;
  - Increase in unfunded liability for unrepresented Tier 3 employees by 3,416%, from \$49,000 to \$1.723 million;
  - Increase in value of benefits by 2,058%, from \$151,000 to \$3.258 million.
- In addition, the Board is scheduled to adopt a similar benefit for its represented employees next month. According to the actuarial analysis, the total impact of the benefit enhancement for all employees would be:
  - 2,180% increase to the retiree healthcare ARC (from \$49,000 to \$1.117 million);
  - 2,806% increase to the unfunded liability (from \$208,000 to \$6.045 million);
  - 1,899% increase to the present value of benefits (\$680,000 to \$13.593 million).

## **SDCTA Review: Otay Water District Enhancement of Retirement Benefits**

### **Background:**

#### *The District*

The Otay Water District (District) is a water, recycled water, and sewer service agency, servicing 125.5 square miles of southeastern San Diego County. Serviced communities include Spring Valley, La Presa, Rancho San Diego, Jamul, eastern Chula Vista, and eastern Otay Mesa along the international border with Mexico. The District serves approximately 206,000 residents and has 47,431 water meters in service.<sup>1</sup>

#### *District Employees*

As of June 30, 2011, the District employed 150 individuals which are divided among represented (42) and unrepresented employees (108). All employees currently participate in the 2.7% @ 55 pension retirement formula, and contribute 1% of the required employee pension payment. The District pays the remaining 7% of the employee pension cost on behalf of the employee.

All employees are also divided among three tiers of retiree health care benefits offered to employees, based upon the employee hire date. The District provides lifetime retiree health and dental benefits for Tier 1 and Tier 2 employees at no charge to the employee, and covers 88% of the cost of dependent coverage for the same benefits. District costs of retiree health benefits for Tier 3 employees are currently capped at 50% of the premium and ends when the employee becomes Medicare-eligible. Furthermore, the employee is not eligible to receive dental benefits, and must pay for coverage of dependents at no cost to the District.

For Fiscal Year (FY) 2012, the retiree healthcare annual required contribution (ARC) for all employees totaled \$493,000.

<b>Actuarial Obligations for Tier 3 Employees - Current Healthcare Benefit (dollars in thousands)</b>				
	<b>Employee Classification</b>			
	<b>Executive</b>	<b>Manager</b>	<b>Sup/Conf</b>	<b>Represented</b>
<b>Number of Employees</b>	5	5	19	96
<b>Average Pay</b>	\$176	\$123	\$93	\$69
<b>Present Value of Benefits</b>	\$24	\$21	\$106	\$529
<b>Unfunded Liability</b>	\$10	\$7	\$32	\$159
<b>FY 2012 ARC</b>	\$2	\$2	\$8	\$37

<sup>1</sup> Otay Water District website. [www.otaywater.gov](http://www.otaywater.gov).

## Newly Approved Retiree Health & Dental Benefits

On July 15, 2011, the District Governing Board approved a contract with the District's unrepresented employees that:

1. Maintains employee cost of living adjustment (COLA) of 3.5% effective July 1, 2011 and another 3.5% effective July 1, 2012;
2. Requires employees to contribute the remaining 7% of the employee share of pension costs over the next two year (3.5% beginning July 15, 2011 and additional 3.5% beginning July 1, 2012);
3. Expands survivor benefits for Tier 1, 2 and 3 employees; and
4. Grants lifetime retiree health and dental benefits for employees and covers 88% of the cost of the benefit for employee dependents for Tier 3 unrepresented employees.

## District Financial Analysis

In the staff report prepared by the District, it states the changes will result in a net savings of \$33,900 per year. The total increase in the ARC is \$316,400, while the savings from requiring employees to pay the remaining 7% of pension costs is \$350,300 per year.<sup>2</sup>

## District Actuarial Valuation

Actuarial Obligations for Tier 3 Employees - Enhanced Healthcare Benefit (dollars in thousands)				
	Employee Classification			
	Executive	Manager	Sup/Conf	Represented
<b>Number of Employees</b>	5	5	19	96
<b>Average Pay</b>	\$176	\$123	\$93	\$69
<b>Present Value of Benefits</b>	\$791	\$588	\$1,879	\$9,411
<b>Unfunded Liability</b>	\$586	\$255	\$882	\$4,323
<b>FY 2012 ARC</b>	\$81	\$55	\$166	\$815

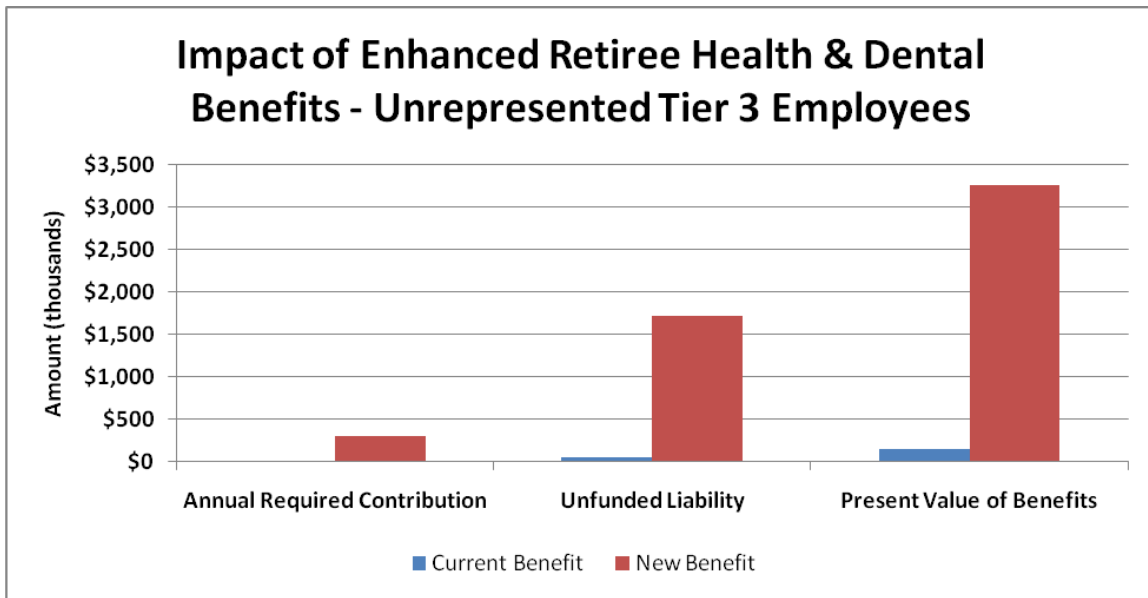
Prior to the adoption of the benefit enhancement, the District engaged the services of Bartel Associates, LLC to conduct an

actuarial valuation outlining the impact of proposed benefit changes. According to the valuation, as of June 30, 2012 the District is projected to have an unfunded retiree healthcare liability of \$4.711 million, and is 66% funded. The FY 2012 ARC for the benefit is \$493,000. Under current District funding projections, the benefit was expected to be 100% funded by FY 2018.

<sup>2</sup> Otay Water District Agenda Item 14 Staff Report. Pgs. 4-5.

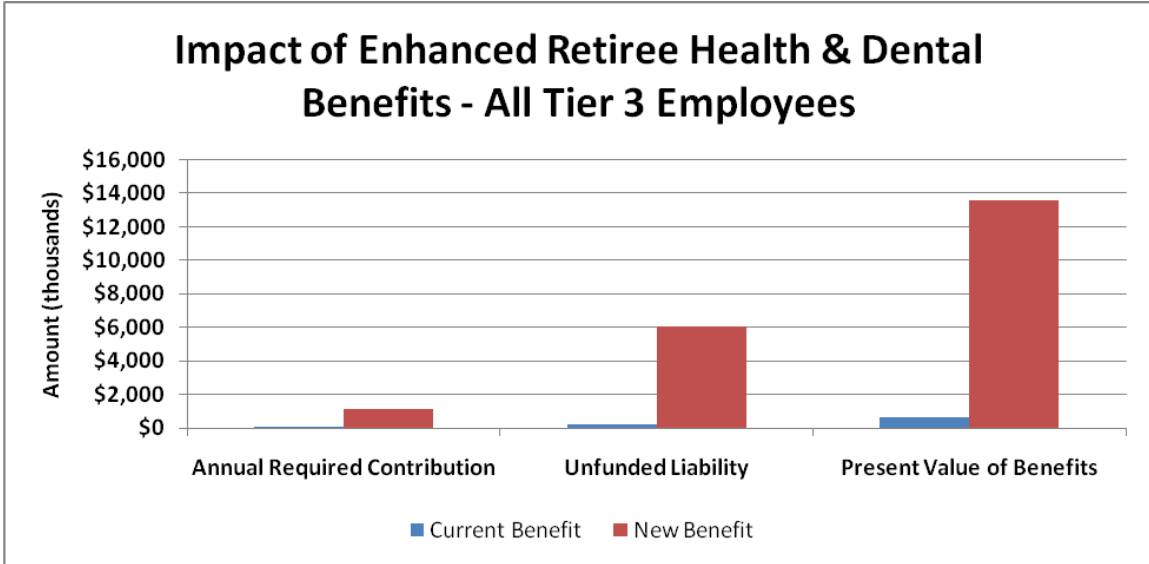
The valuation also outlined various scenarios in which the fiscal impacts of benefit changes were outlined. The valuation noted the changes to the District's ARC for FY 2012 as well as the total unfunded liability for the benefit. The valuation did not project future ARC payments beyond FY 2012.

In total, the enhancement of benefits for unrepresented employees resulted in an increase to the District's ARC by \$315,000, and \$290,000 specifically for unrepresented Tier 3 employees. The District's unfunded liability for unrepresented Tier 3 employees increased by 3,416%, from \$49,000 to \$1.723 million. Finally, the present value of benefits that will be paid for by the District throughout the retirement years of Tier 3 employees increased by 2,058%, from \$151,000 to \$3.258 million.



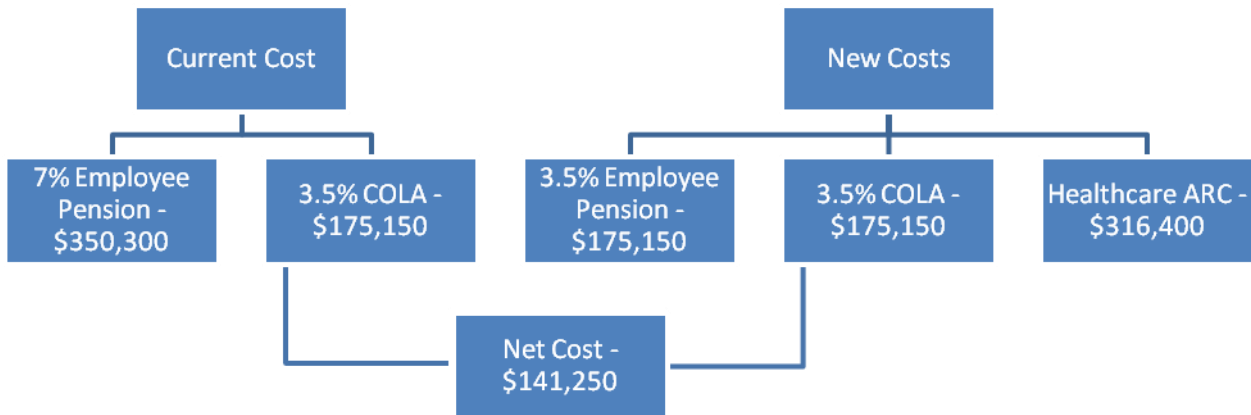
The District staff report also states a similar proposal was provided to represented employees for consideration. Assuming the Board agrees to provide the same benefits to represented employees, the District would experience the following impacts for Tier 3 employees:

- 2,180% increase to the retiree healthcare ARC (from \$49,000 to \$1.117 million)
- 2,806% increase to the unfunded liability (from \$208,000 to \$6.045 million)
- 1,899% increase to the present value of benefits (\$680,000 to \$13.593 million)



**Rebuttal to District Statements**

In conversations with Bartel Associates, LLC, they stated that they have not reviewed any savings projections offered by the District, nor did they outline potential savings within the valuation completed for the District. The District has consistently stated that not only will the agreement result in a net savings, but employees will direct the two years of COLA adjustments towards the cost of retiree health and dental benefits.



First, while the District outlines the increase of \$316,400 to the ARC for FY 2012, the savings of \$350,300 from requiring employees pay the remaining 7% of their pensions is over a two-year period (FY 2012 and FY 2013). The District does not provide the increase to the ARC for FY 2013, or beyond. Taking into account the increase to the ARC and the first year savings of 3.5% of pay, the District will experience an increased cost of \$141,250 for FY 2012. In conversations with District staff, it has been indicated

that their expected total financial impact to the District to pay for the enhanced health benefits would maintain at \$316,400, and not increase beyond that amount.

The recent valuation completed for the District outlines an accelerated funding plan to reach a 100% funding level by FY 2018 for the current benefit. Based on the same valuation, and the impact to the District's unfunded liability from adopting the enhanced benefits, it is safe to assume the District would need to expend more than \$316,400 to cover the increased cost. Furthermore, Bartel & Associates, LLC has stated to SDCTA that due to the increased benefit, the District's current plan of reaching a 100% level of funding for the benefit will be delayed beyond FY 2018.

The District has also stated "employees support a proposal to use the pending Cost of Living Adjustments to increase their contribution to the CalPERS Pension Plan to purchase enhanced Retiree Health Benefits."<sup>3</sup> However, the adopted language within the employee agreement does not set forth the requirement that employees contribute to the plan, but rather states employees will have "100% of the premium paid by the District."<sup>4</sup> Furthermore, Section C under "Pension (Retirement Plan): Unrepresented Employees" within the agreement does not state the additional 3.5% contribution effective July 15, 2011 or the remaining 3.5% payment effective July 1, 2012 will be diverted to pay for the retiree health benefits.<sup>5</sup>

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<sup>3</sup> Otay Water District Agenda Item 14 Staff Report. Pg 2.

<sup>4</sup> Otay Water District Agenda Item 14 Staff Report. Attachment D. Exhibit 1.

<sup>5</sup> Ibid.