

MINUTES OF A MEETING OF THE  
FINANCE/INVESTMENT COMMITTEE  
OF THE VALLECITOS WATER DISTRICT  
MONDAY, MARCH 22, 2021 AT 2:00 P.M.  
VIA TELECONFERENCE

Director Sannella called the meeting to order at the hour of 2:00 p.m. The meeting was held via teleconference.

Present: Director Boyd-Hodgson  
Director Sannella  
General Manager Pruim  
District Engineer Gumpel  
Finance Manager Owen  
Operations & Maintenance Manager Pedrazzi  
Accounting Supervisor Rathsam  
Meter Services Supervisor Tapia  
Principal Financial Analyst Arthur  
Executive Secretary Posvar  
Administrative Secretary Johnson

ITEM(S) FOR DISCUSSION

OPERATING BUDGET REQUESTS

Finance Manager Owen provided an overview of the budget process to date. Budget requests have been received from all departments and have been compiled into the operating budget. Current fiscal year projections are complete. Personnel/payroll estimates and the debt service forecast should be completed by the end of March.

Finance Manager Owen reviewed the draft operating budget for water and sewer budget-to-budget rather than budget-to-actual as it is too early with four months left in the current fiscal year. All numbers presented are very preliminary and subject to change.

Water operating expenses are projected to increase by \$453,000 or 3.54%, subject to changes in staffing and labor allocations. The most significant changes budget-to-budget are Pumping decreasing \$105,000, Transmission & Distribution increasing \$141,000, Meters increasing \$163,000, Customer Accounts decreasing \$136,000, Engineering increasing \$105,000, and General & Admin increasing \$117,000.

Sewer operating expenses are projected to decrease by \$36,000 or -0.3%, subject to changes in staffing and labor allocations. Significant changes budget-to-budget are Collections & Conveyance decreasing \$188,000 and Engineering increasing \$123,000.

Staff provided details regarding the projected variances.

General discussion took place regarding an energy management study, staffing levels, and Board expenses.

Finance Manager Owen reviewed the tentative budget calendar as follows:

- April 12 (Committee Meeting) – Payroll estimates and staffing; review of capital budget requests – there may be a scheduling conflict on this date
- April 26 (Committee Meeting) – Tentative Cost of Service Study update; discuss Board requested items
- May 3 (Committee Meeting) – Review draft proposed budget; discuss Board requested items
- May 19 (Board Workshop) – First review of proposed budget
- June 2 (Board Meeting) – Approval of recommended budget

### AUDITOR AGREEMENT

Finance Manager Owen stated California Government Code Section 26909 requires the District to have an annual audit performed by an independent auditor. The District selects an audit firm through the competitive bid process every three to five years. In 2018, of the seven firms that submitted proposals, DavisFarr was selected as they were highly recommended by all references and also the lowest bidder. The District saved \$12,200 over the past three years as compared to the previous audit firm. The current agreement with DavisFarr has an option to extend the agreement two additional years.

Finance Manager Owen further stated the Government Finance Officers Association's best practices regarding audit procurement states that governmental agencies should enter into multiyear agreements of at least five years in duration when obtaining the services of independent auditors. Assembly Bill 1345 limits existing audit partners to a maximum of six years; however, rotation of audit partners is allowed. The current agreement with DavisFarr stipulates that if the agreement is extended, their fees would increase by a nominal 2% per year which would still be very low compared to the fees of other firms quoted in 2018. Staff recommended extending the auditor agreement with DavisFarr.

The Committee supports staff's recommendation of extending the agreement with DavisFarr for two more years. This item will go to the Board for their consideration.

### CWA/MWD LAWSUIT REFUND

Director Sannella acknowledged for the record that written comments regarding this item were received from Gayle Martin, member of the public, and Latham & Watkins, the law firm representing Golden Door Properties, LLC. General Manager Pruim stated both comments expressed the opinion that the funds from the lawsuit settlement should be used to offset future water costs. Neither party expressed an opinion about refunding the funds to current or past customers.

Gayle Martin addressed the Committee stating she encourages the entire Board to consider a lower rate increase to rate payers. She also had questions about meter parts, inventory and testing discussed during the budget presentation, to which staff responded.

General Manager Pruim stated that at the March 17 Board meeting, the Board requested this item be presented to the Finance/Investment Committee for further discussion; however, staff has not had time to do an in-depth analysis on this. The courts ruled that Metropolitan Water District of Southern California (MWD) overcharged the San Diego County Water Authority (SDCWA) in the years 2011 through 2014 and awarded damages in the amount of \$44.4 million to SDCWA. Based on SDCWA member agencies' water purchases during that time period, the District's share of the lawsuit settlement is \$1,590,623.74. The District has received the funds and placed them in the water replacement reserves. There is no urgency in determining what to do with the funds. The Board may want to consider this in conjunction with the budget process. The SDCWA will likely also be receiving approximately \$13 million in attorneys' fees; however, they have not decided what to do with those funds yet. In addition, there are pending legal challenges for years 2014 through 2018 which will likely bring in another \$30 million.

General Manager Pruim further stated the funds may be used at the District's discretion; however, they cannot be used for wastewater purposes or capacity fund projects. Allowable uses include reducing the revenue requirement. Some examples of how this could be done would be by offsetting future water purchase costs (rate stabilization fund); water replacement capital improvement projects; operating expenses including salaries and benefits; CalPERS unfunded accrued liability; materials, supplies and services for water replacement; and the District's fleet. Another option is to provide refunds or credits to customers which raises the following issues to be considered:

- Which customers – former customers during 2011-2014 or current customers?
- Calculation of how to allocate the funds among customers.
- It would be very difficult to track down former customers.
- There would be considerable administrative costs associated with the analysis of who to credit or refund, how much, and locating former customers. Estimated cost could be \$200,000.
- Apply the credit to customer bills (would address overdue balances) or issue a cash refund to customers?

General Manager Pruim stated staff's preliminary analysis indicates that if the Board chooses to apply the settlement proceeds toward future water supply costs to keep rates low, the result would be a 26 cent per-unit credit. The average single family customer would receive a benefit of approximately \$40.92 over a one-year period. If the settlement funds were split equally among all customers regardless of meter size, they would receive a credit or refund of \$72.50. If meter size were considered, the average single family customer would receive a credit of \$55.16. There are many legal issues associated with the credit/refund approach, primarily identifying who would receive a refund and what amount. This could be costly and would reduce the amount of benefit to the customer. Per the District's legal counsel, the settlement funds cannot be used to benefit a specific class of customers such as those experiencing financial difficulty; for example, a COVID relief fund. A more in-depth legal analysis is necessary before this issue can go back to the Board so that they consider only legal options.

General discussion took place regarding the options of using the settlement funds to offset future water costs or to provide direct credits or refunds to current customers.

The consensus of the Committee was to direct staff to provide options for the Board's consideration to give the settlement money back to the customers rather than applying the funds to offset future water costs. Director Boyd-Hodgson recommended information identifying the credit or refund be included in the customer water bills. Finance Manager Owen noted that issuing a credit would be preferable to issuing checks. The cost to write a check is approximately \$8 to \$9 per check which would decrease the amount of the refund.

The Committee indicated they do not need to discuss this issue further before it is presented to the Board for their consideration.

#### OTHER BUSINESS

None.

#### PUBLIC COMMENT

None.

#### ADJOURNMENT

There being no further business to discuss, the meeting was adjourned at the hour of 3:46 p.m.