

**AGENDA FOR A MEETING OF THE
FINANCE/INVESTMENT COMMITTEE
OF THE VALLECITOS WATER DISTRICT
MONDAY, JULY 24, 2017 AT 3:00 P.M.
AT THE DISTRICT OFFICE
201 VALLECITOS DE ORO, SAN MARCOS, CALIFORNIA**

CALL TO ORDER - DIRECTOR MARTIN

ITEM(S) FOR DISCUSSION

1. RESERVE POLICY
2. PUBLIC EMPLOYEE RETIREMENT SYSTEM
3. OTHER POST EMPLOYMENT BENEFITS INFORMATION
4. INDEPENDENT AUDIT SERVICES FOR FY 2014/15 AND SUBSEQUENT YEARS
5. ORDINANCE ESTABLISHING ADMINISTRATIVE CHARGES TO RECOVER INDIRECT COSTS FOR FY 2017/18
6. MISCELLANEOUS FEE STUDY

OTHER BUSINESS

PUBLIC COMMENT

Persons wishing to address a matter not on the Agenda may be heard at this time; however, no action will be taken until the matter is placed on a future agenda in accordance with Board policy. Public comments are limited to three minutes. A Request to Speak form is required to be submitted to the Executive Secretary prior to the start of the meeting, if possible. Public comment should start by stating name, address and topic. The Board is not permitted during this time to enter into a dialogue with the speaker.

If you have any disability which would require accommodation in order to enable you to participate in this meeting, please call the Executive Secretary at 760.744.0460 ext. 264 at least 48 hours prior to the meeting.

AFFIDAVIT OF POSTING

I, Diane Posvar, Executive Secretary of the Vallecitos Water District, hereby certify that I caused the posting of this Agenda in the outside display case at the District office, 201 Vallecitos de Oro, San Marcos, California by 5:00 p.m., Thursday, July 20, 2017.

Diane Posvar

DATE: JULY 24, 2017
TO: FINANCE COMMITTEE
SUBJECT: OTHER POST-EMPLOYMENT BENEFITS INFORMATION

BACKGROUND:

The Vallecitos Water District (District) provides retiree health benefits to employees hired prior to July 1, 2013, attain age 50, and retire with at least five continuous years of service. Accounting standards require the District prepare an actuarial valuation bi-annually of the liability the District incurs to provide Other Post-Employment Benefits (OPEB) to retirees. In July 2017, Nyhart, an actuary and employee benefits consulting firm, provided the District with their report on the OPEB Actuarial Valuation Retiree Health Program (Valuation) projected through June 30, 2022. Previously, Nyhart prepared a valuation report on June 30, 2015 projecting through June 30, 2020.

DISCUSSION:

Funding a Trust:

Rather than paying retirees' medical premiums as they come due, in 2011 the District funded \$2.6 million in a trust from which future retiree medical premiums are to be paid. As of June 30, 2017, the trust had assets of \$3.56 million

The 2017 valuation estimates the District's OPEB liability at June 30, 2018 to be \$5.49 million with plan assets of \$3.56 million, leaving a net OPEB liability of \$1.93 million. The FY 2018 budget has \$1.96 million to fully fund the liability.

FISCAL IMPACT:

The Fiscal Year 2017/18 Budget includes \$1.96 million to cover the unfunded liability.

RECOMMENDATION:

Staff is seeking direction from the Finance Committee to either fund the trust or to continue to carry the unfunded liability on the balance sheet.

DATE: JULY 24, 2017
TO: FINANCE COMMITTEE
SUBJECT: INDEPENDENT AUDIT SERVICES FOR FISCAL YEAR 2014/15 AND
SUBSEQUENT YEARS

BACKGROUND:

On April 15, 2015, the Board of Directors entered into a three-year agreement for audit services with Rogers, Anderson, Malody & Scott, LLP Certified Public Accountants (attached). The term of the contract was for the three fiscal years of 2015/16, 2016/17 and 2017/18.

DISCUSSION:

The District is required to have an annual audit per California Government Code Section 26909. The Government Accounting Standards Board. Government Finance Officers Association (GFOA) best practice (attached) recommends:

“Governmental entities should enter into multiyear agreements of at least five years in duration when obtaining the services of independent auditors. Such multiyear agreements can take a variety of different forms (e.g., a series of single-year contracts), consistent with applicable legal requirements. Such agreements allow for greater continuity and help to minimize the potential for disruption in connection with the independent audit. Multiyear agreements can also help to reduce audit costs by allowing auditors to recover certain “startup” costs over several years, rather than over a single year.”

It is not uncommon for entities entering into three-year contracts for audit services to have a clause allowing two additional year extensions to the contract. Vallecitos’ contract does not have such a clause. Vallecitos has two options: 1) Open negotiations with our existing auditors to extend the contract, or 2) begin a complete Request for Proposal process at the completion of the fiscal year 2016/17 audit.

FISCAL IMPACT:

Audit services are budgeted for each year in the District’s annual operating budget. Audit services have averaged \$32,000 per year over the past three years.

RECOMMENDATION:

Staff is seeking direction from the Finance Committee to either open negotiations with our existing auditors to extend the contract or begin a complete Request for Proposal process at the completion of the fiscal year 2016/17 audit.

DATE: JULY 24, 2017
TO: FINANCE COMMITTEE
SUBJECT: ORDINANCE ESTABLISHING ADMINISTRATIVE CHARGES TO RECOVER INDIRECT COSTS FOR FISCAL YEAR 2017-18

BACKGROUND:

On June 21, 2017, the Board of Directors was presented with the following staff report and ordinance establishing a rate (overhead rate) to facilitate the recovery of indirect costs via an administrative charge. More information was requested, including:

- the formula used to calculate the rate
- types of activities where the rate is applied

DISCUSSION:

The 2013 Cost of Service Report recommended a single overhead rate applied to direct labor costs and the rate be adjusted annually using the approved District budget in accordance with the methodology established in the Report. A brief history of adopted overhead rates follow:

| | Adopted | Adopted | Effective | Indirect | Direct |
|-------------------|---|-------------|--------------|-------------------|------------------|
| Ordinance | Date | Rate | for FY | Costs | Costs |
| 88 | 3/5/1990 | 75% | 90/91 | NA | NA |
| 182 | 9/4/2013 | 195% | 13/14 | 10,154,626 | 5,215,174 |
| 192 | 7/16/2014 | 188% | 14/15 | 10,420,378 | 5,535,622 |
| 192* | 7/15/2015 | 198% | 15/16 | 11,367,536 | 5,352,464 |
| 199 | 7/20/2016 | 205% | 16/17 | 11,607,237 | 5,643,763 |
| <i>Proposed**</i> | <i>6/21/2017</i> | <i>221%</i> | <i>17/18</i> | <i>12,031,103</i> | <i>5,427,897</i> |
| 192* | This year the calculation result was 212% but because of one time expenses it was adopted at a lower rate of 198% | | | | |
| <i>Proposed**</i> | <i>Presented not adopted</i> | | | | |

Excerpts from the 2013 Cost of Service Report explaining the formula and types of activities where the rate is applied:

1.3.4 District Staff Labor Overhead Rate

1. Black & Veatch recommends that the District utilize a 195 percent overhead rate for FY 13/14. The District can use this rate to apply to outside contractor costs, developer projects and miscellaneous billings to help recover District support associated with these costs.
2. Furthermore, Black & Veatch recommends that the District conduct an annual review of direct and indirect costs and the resulting overhead rate as these costs tend to change from year to year. The review and implementation of overhead rates should be effective as of July 1 of each fiscal year based on that year's approved budget.

6.1.1 OVERHEAD RATE ANALYSIS

The overhead rate analysis is a simple one that consists of identifying District indirect costs that support direct services provided by the District, grouping direct labor costs of the District (less benefits), and finally dividing the total indirect costs by the total direct costs. Table 6-1 shows the overhead calculation and resulting rate.

Examples of types of activities where the rate is applied are:

- Outside contractor costs such as when VWD provides another agency with VWD personnel on a temporary and fee for services basis.
- Developer projects where VWD staff will review plans presented by someone at the engineering counter and bill at the staff person's hourly rate plus the overhead rate.

- Miscellaneous billings such as when a VWD asset is damaged in a traffic accident and costs of repairs are billed to the responsible party.

Excerpt from 2013 Cost of Service Report

Table 6-1. FY 13/14 Proposed District Overhead Rate

| Description | FY 2014 Budget |
|--|-------------------|
| Indirect Costs | |
| Water - Safety & Regulatory Affairs | 245,000 |
| Water - Building & Grounds | 327,000 |
| Water - Information Technology | 634,480 |
| Water - General & Administration | 3,141,000 |
| Water - G & A Transfer | 330,000 |
| Wastewater - Safety & Regulatory Affairs | 114,000 |
| Wastewater - Building & Grounds | 150,000 |
| Wastewater - Information Technology | 371,320 |
| Wastewater - General & Administration | 1,301,000 |
| Wastewater - G&A Transfer | 370,000 |
| Water/Wastewater Benefits | 3,170,826 |
| Total District Indirect Costs | 10,154,626 |
| Direct Costs | |
| Water - Pumping Cost of Labor | 53,000 |
| Water - Water Quality Cost of Labor | 77,000 |
| Water - Water Treatment Cost of Labor | 327,000 |
| Water - Tanks & Reservoirs Cost of Labor | 284,000 |
| Water - T&D Cost of Labor | 1,001,000 |
| Water - Services Cost of Labor | 139,000 |
| Water - Meters Cost of Labor | 545,000 |
| Water - Backflow Prevention Cost of Labor | 59,000 |
| Water - Customer Accounts Cost of Labor | 553,000 |
| Water - Engineering Cost of Labor | 1,293,000 |
| Water - Equipment & Vehicles Cost of Labor | 108,000 |
| Wastewater - Collection Cost of Labor | 1,537,000 |
| Wastewater - Lift Stations Cost of Labor | 151,000 |
| Wastewater - Peroxide Station Cost of Labor | 3,000 |
| Wastewater - Source Control Cost of Labor | 238,000 |
| Wastewater - Meadowlark Lift Station Cost of Labor | 101,000 |
| Wastewater - MRF Cost of Labor | 983,000 |
| Wastewater - Mahr Reservoir Cost of Labor | 102,000 |
| Wastewater - Customer Accounts Cost of Labor | 245,000 |
| Wastewater - Equipment & Vehicles Cost of Labor | 70,000 |
| Wastewater - Engineering Cost of Labor | 517,000 |
| Total District Direct Costs | 8,386,000 |
| Benefit % per budget | 60.8% |
| Direct Costs less Benefits | 5,215,174 |
| Total VWD Overhead Rate | 195% |

Sources: VWD Approved Budgets.

The June 21, 2017, proposed Ordinance recommended an overhead rate of 221% and was derived by dividing adopted FY 17/18 budgeted indirect costs by direct labor costs as per the recommended methodology in the Report.

FY 17/18 Proposed District Overhead Rate

| FY 2017/18 | |
|--|-------------------|
| Description | Budget |
| Indirect Costs | |
| Water - Safety & Regulatory Affairs | 261,000 |
| Water - Building & Grounds | 362,000 |
| Water - Information Technology | 1,003,000 |
| Water - General & Administration | 2,812,000 |
| Water - G & A Transfer | 1,020,000 |
| Wastewater - Safety & Regulatory Affairs | 189,000 |
| Wastewater - Building & Grounds | 257,000 |
| Wastewater - Information Technology | 831,000 |
| Wastewater - General & Administration | 1,455,000 |
| Wastewater - G & A Transfer | 548,000 |
| Water/Wastewater Benefits | 3,293,103 |
| Total District Indirect Costs | 12,031,103 |
| Direct Costs | |
| Water - Pumping Cost of Labor | 104,000 |
| Water - Water Quality Cost of Labor | 63,000 |
| Water - Water Treatment Cost of Labor | 375,000 |
| Water - Tanks & Reservoirs Cost of Labor | 248,000 |
| Water - T&D Cost of Labor | 1,178,000 |
| Water - Services Cost of Labor | 100,000 |
| Water - Meters Cost of Labor | 565,000 |
| Water - Backflow Prevention Cost of Labor | 25,000 |
| Water - Customer Accounts Cost of Labor | 487,000 |
| Water - Engineering Cost of Labor | 1,315,000 |
| Water - Equipment & Vehicles Cost of Labor | 114,000 |
| Wastewater - Collection Cost of Labor | 1,517,000 |
| Wastewater - Lift Stations Cost of Labor | 187,000 |
| Wastewater - Peroxide Station Cost of Labor | - |
| Wastewater - Source Control Cost of Labor | 153,000 |
| Wastewater - Meadowlark Lift Station Cost of Labor | 102,000 |
| Wastewater - MRF Cost of Labor | 1,009,000 |
| Wastewater - Mahr Reservoir Cost of Labor | 96,000 |
| Wastewater - Customer Accounts Cost of Labor | 364,000 |
| Wastewater - Equipment & Vehicles Cost of Labor | 107,000 |
| Wastewater - Engineering Cost of Labor | 612,000 |
| Total District Direct Costs | 8,721,000 |
| Benefit % per budget | 60.7% |
| Direct Costs less Benefits | 5,427,897 |
| Overhead Rate | 221.65% |

Source: VWD Approved Budgets

RECOMMENDATION:

Staff recommends the Finance Committee recommend to the full Board, consideration and adoption of the proposed ordinance repealing Ordinance No. 199 adjusting the overhead rate.

DATE: JULY 24, 2017
TO: FINANCE COMMITTEE
SUBJECT: MISCELLENOUS FEE STUDY

BACKGROUND:

On August 21, 2013, the Board of Directors accepted a Cost of Service Study titled “Water Validation, Cost of Service & Rate Design Analysis; Wastewater Validation & Rate Analysis; Miscellaneous Fees & Overhead Rate Analysis” The Report presented recommendations for the maximum fees for various engineering; water and wastewater service; annexations and reimbursement agreements. The Board adopted ordinances in Fiscal Year 2013/14, which set fees in each of the areas above, utilizing the methodology in the Report and Board’s discretion.

DISCUSSION:

The fees set in fiscal year 2013/14 were revisited as part of the Fiscal Year 2017/18 budget process. The accompanying red-lined ordinances are presented as a starting point for discussion and review of the current fees as well as the maximums that can be charged based on the methodology established in the Report.

FISCAL IMPACT:

The Fiscal Year 2017/18 Budget includes revenue estimates based on the fees set in fiscal year 2013/14.

RECOMMENDATION:

Staff is presenting the Finance Committee with the red-lined ordinances of current and potential maximum fees for information only at this time.