

MINUTES 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

Director Martin called the meeting to order at the hour of 3:00 p.m.

Present: Director Martin
 Director Sannella
 General Manager Pruim
 Assistant General Manager Scaglione
 Finance Manager Fusco
 Administrative Secretary Johnson

ITEMS FOR DISCUSSION

RESERVE POLICY

Assistant General Manager Scaglione provided a presentation on the District's current reserve policy as follows:

- Objectives of the Presentation
- VWD Reserve Policy
 - What Works
 - What Needs to be Addressed
- Reserve Trends
- Water Replacement Reserves – Projected
- Sewer Replacement Reserves – Projected
- Water Replacement Reserves – Targets and Costs
- Sewer Replacement Reserves – Targets and Costs
- Reserves – Agency Comparisons
 - Operating Reserves
 - Capital Replacement Reserves
 - Rate Stabilization Funds
 - Other Reserve Funds
 - Bottom Line

Assistant General Manager Scaglione suggested changes to the District's reserve policy such as, providing more management discretion on rate stabilization which would allow more flexibility in terms of debt service coverage, and adding language regarding restricted reserves. When a draft revised reserve policy is completed, it will be presented to this Committee for review.

General discussion took place regarding the current capacity deficit of \$16.4 million which is water and sewer combined, status on the District's Master Plan, and re-evaluation of the District's divisions.

This item was presented for information only.

PUBLIC EMPLOYEE RETIREMENT SYSTEM

Finance Manager Fusco distributed a Circular Letter from CalPERS containing data to be used as a planning tool. He provided a presentation on CalPERS discount rate changes which included the following:

- Objectives of the Presentation
- What is CalPERS doing now?
- How are pension benefits paid?
- Background Information
 - Required Employer Contributions
 - Amortization Policy
- CalPERS Projected Impact of Proposed Changes to VWD
- CalPERS Projected Impact of Proposed Changes vs. VWD Budget
- Strategies to Consider

Finance Manager Fusco stated CalPERS is changing the discount rate from 7.5% to 7.0%, phasing in the change over a three-year period beginning in FY 2018/19. The reason for the change is that CalPERS is now cash flow negative, meaning it's paying out more in benefits each year than it receives in contributions.

General discussion took place.

This item was presented for information only.

OTHER POST EMPLOYMENT BENEFITS INFORMATION

Finance Manager Fusco stated the District is required to prepare an actuarial valuation biennially of the District's liability to provide Other Post-Employment Benefits (OPEB) to its 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. District staff compared this information to the assets of the District's irrevocable trust that was set up in 2011 from which only future retiree medical premiums are to be paid. The trust has grown from \$2.6 million in 2011 to \$3.56 million as of June 30, 2017.

Finance Manager Fusco further stated OPEB is available to employees (and their spouses) hired before July 1, 2013, with at least five years of service (ten to receive 100% of the benefit), to age 65 when they become eligible for Medicare. The 2017 valuation estimates the District's OPEB liability to be \$5.49 million as of June 30, 2017,

leaving a net OPEB liability of \$1.93 million. The District's FY 2017/18 budget includes \$1.96 million to fully fund the liability.

The District has two options concerning the OPEB liability. One option is to bring the liability onto the balance sheet and not fund the trust. The other option is to continue to fund the trust as it is now and at the point where the liabilities and assets meet, start drawing on those funds to pay the OPEB benefits to retirees. The market's effect on the growth of assets along with what happens with health care are things to be considered. Finance Manager Fusco recommended the Committee review this again in May of 2018 when more information will be available on the value of the trust's assets and what health care costs will be at that time. The decision to fund the trust does not need to be made until June 30, 2018.

The consensus of the Committee was to review this at the appropriate time next year.

INDEPENDENT AUDIT SERVICES FOR FY 2014/15 AND SUBSEQUENT YEARS

General discussion took place regarding the term of Rogers, Anderson, Malody & Scott, LLP Certified Public Accountants' contract which is in its last year of a three-year contract. Directors Martin and Sannella stated information they obtained recommend changing auditing firms every two to three years.

Assistant General Manager Scaglione stated the Government Finance Officers Association (GFOA) best practice recommends governmental entities enter multiyear agreements of at least five years in duration when obtaining the services of independent auditors.

Director Martin asked about the status of rebidding any contracts the District pays over \$100,000 per year. General Manager Pruim stated staff has developed a very short list of vendors meeting that criteria. Staff is in the process of preparing a Request for Proposal (RFP) for legal services which should be ready by the end of August.

The consensus of the Committee was to recommend the Board direct staff to begin a complete RFP process for independent audit services at the completion of the FY 2016/17 audit.

ORDINANCE ESTABLISHING ADMINISTRATIVE CHARGES TO RECOVER INDIRECT COSTS FOR FY 2017/18

Finance Manager Fusco stated the proposed ordinance was presented to the Board at the June 21, 2017 Board meeting at which it was tabled for further discussion. On August 21, 2013, the District accepted a Cost of Service Study (COSS) titled, "Water Validation, Cost of Service & Rate Design Analysis; Wastewater Validation & Rate Analysis; Miscellaneous Fees & Overhead Rate Analysis (Report)", which included a recommended method to calculate an annual overhead rate to recover indirect costs. Prior to the 2013 COSS, the District's adopted rate was 75% beginning in 1990.

Finance Manager Fusco provided a brief history of adopted overhead charges, how the rate is calculated and the types of activities where the charge is applied.

General discussion took place regarding the large overhead rate increase from 205% on July 20, 2016 to the proposed increase on June 21, 2017 of 221%. General Manager Pruum discussed the dynamics of the overhead rate calculation. Finance Manager Fusco stated the fee is charged to recover the District's indirect costs.

Director Martin requested staff provide the Board data comparing costs from 2016 and 2017 to explain the 17% increase.

The Committee requested staff bring the ordinance back to the Board for consideration.

MISCELLANEOUS FEE STUDY

Finance Manager Fusco explained the correlation between the budget, overhead charges and miscellaneous fees, and how the miscellaneous fees are calculated. He provided copies of four red-lined ordinances containing miscellaneous fees as a starting point for discussion and review of the current fees and the maximums that can be charged based on the methodology established in the 2013 COSS.

The Committee requested staff provide a chart of all current miscellaneous fees, staff's recommended justified fee, and other comparable agencies' miscellaneous fees.

OTHER BUSINESS

None.

PUBLIC COMMENT

None.

ADJOURNMENT

There being no further business to discuss, the meeting was adjourned at the hour of 5:03 p.m.