



FINANCE COMMITTEE

REGULAR MEETING

Thursday, November 29, 2018 - 10:00 AM to 12:00 PM
1000 Main Street Cambria, CA 93428

MINUTES

A. CALL TO ORDER

Chairman Pierson called the meeting to order at 10:00 a.m.

B. ESTABLISH QUORUM

A quorum was established.

Committee members present: David Pierson, Ted Siegler, Cindy Steidel and Dewayne Lee.

Amanda Rice arrived late.

Staff present: District Engineer Bob Gresens, Finance Manager Pamela Duffield and Clerical Assistant Annette Young.

Public present:

Ted Dean

Karen Dean

Mike Lyons

Harry Farmer

Cheryl McDowell

Donn Howell

Jim Bahringer

C. CHAIRMAN'S REPORT

Chairman Pierson stated that committee changes may occur in January.

Committee member Rice said the Board will discuss input from both committees at the January Board meeting. The Board wants to make sure that they have committees that represent what the community wants.

1. PUBLIC COMMENT

None.

2. CONSENT AGENDA

A. Consideration to Approve the November 1, 2018 Regular Meeting Minutes

Vice Chair Siegler moved to approve the minutes.

Committee member Steidel seconded the motion.

The motion was approved: 4-Ayes (Siegler, Steidel, Pierson, Lee), 0-Nays, 1-Absent (Rice)

Chairman Pierson asked the committee if they would like to hear Regular Business Item 3.C. first, so Mr. Gresens can present the item and return to work?

The committee members agreed.

3. REGULAR BUSINESS

A. Discussion Regarding Progress Made on Reserve Fund Policy

Chairman Pierson introduced the item and stated he made changes to the policy.

The committee had an extensive discussion regarding the Reserve Fund Policy.

Vice Chair Siegler asked where the money is coming from to create funds and reserves?

Mrs. Duffield said that was her question as well. It's a great plan, but I don't know if it's doable.

Chairman Pierson said it has to be. I agree that in the very near future we're not going to be able to put much in the funds, but we have to start planning for it in the budget. We've allowed the reserve funds to diminish to almost nothing. We've got to build it back up. The General Fund has to be built back up because it doesn't get much revenue from July to December. We need to identify the monies in the budget. We need to be prepared. It's going to be difficult, but we need a policy in place.

Vice Chair Siegler asked if any reserves were incorporated into the rate study?

Chairman Pierson indicated some were.

Vice Chair Siegler asked if it is compliant with Prop 218?

Chairman Pierson indicated it is compliant.

Vice Chair Siegler suggested to be explicit with the annual budget process. The Board will consider the need for reserve funds and set aside an amount defined by the Board annually.

Committee member Rice said it's better to say a set percentage is set aside for reserves for each fund.

Vice Chair Siegler said the Board should address or revisit the reserve issue each year.

Chairman Pierson asked if we want to put in a recommended percentage in this policy or say the Board should be considering reserve funding each year when doing budgeting?

Vice Chair Siegler said the latter.

Committee member Steidel suggested reviewing and evaluating the percentage each year.

Committee member Rice said the policy says you may not set aside zero. We don't need a percentage, but it shouldn't say zero.

Vice Chair Siegler commented that if reserves are sufficient, zero is okay.

Public Comment:

Mike Lyons: As a ratepayer and member of the community, I'm concerned about infrastructure and reserves. As a ratepayer, if the Board approves setting aside reserves and has to cut back on some other budget items, he thinks ratepayers would be behind it.

Cheryl McDowell: I agree.

Committee member Lee agrees but said we've neglected our needs and gotten behind and until we catch up, we may want to go easy in the beginning.

Committee member Rice said based on the conversation, we may need to look at the General Fund reserve policy and set aside the Enterprise Fund reserve policy, so we don't undo some things we're doing with Prop 218 money.

Vice Chair Siegler disagrees with trying to isolate funds from a policy that the agency needs to consider. We have elected board members to make those decisions.

Public Comment:

Mike Lyons: When Prop 218 funds come in, wouldn't it be wise to put a percentage into reserves and then do infrastructure projects?

Vice Chair Siegler said he wants to see a budget.

Chairman Pierson agrees with Vice Chair Siegler. If we establish a percentage of revenue going into reserves, we may not complete a project, but a percentage should be set aside. Let's see what happens with the 2019/2020 budget before we decide.

Mrs. Duffield stated Mr. Gresens' CIP infrastructure list has identified vehicles for replacement using Prop 218 funds. She and Mr. Gresens are working on looking at what the rate increase said the funds would be used for.

Public Comment:

Cheryl McDowell: Can we set aside fire department funds for reserves – if it's there? Do you know how healthy these funds are?

Chairman Pierson said Fire is part of the General Fund and the accounting and budgeting are by fund.

Vice Chair Siegler said in the audit the General Fund is broken out, but we don't have a good balance sheet yet. There needs to be one for each fund. Pam has a lot of work to catch up on, so it's a lot to expect right now, but it's part of getting good financial information.

Committee member Steidel asked what's the difference between a set-aside fund and sinking fund?

Vice Chair Siegler said he used the term sinking fund. It's using cash flow depreciation for equipment replacement, but it's not applicable for governmental funds though.

Committee member Steidel asked if the designated special use is a set-aside fund?

Committee member Rice stated maybe Cindy's issue would be addressed if we had a sheet of definitions.

Committee member Steidel agreed that could be part of the policy.

The committee members agreed.

Chairman Pierson said I don't think we're going to be able to do anything with reserve funding this budget year, but we need to look at it for the 2019/2020 budget in April or May 2019. The committee has time to work on it. We may have new committee members and should let them address this.

Committee member Rice made a motion to approve Chairman Pierson's suggestion.

Vice Chair Siegler seconded the motion.

The motion was approved: 5-Ayes (Rice, Siegler, Pierson, Steidel, Lee), 0-Nays, 0-Absent

B. Discussion Regarding Progress Made on Interfund Loan Policy

Chairman Pierson introduced the item and stated he made minor adjustments to the policy. If the committee agrees with the policy, he would accept a motion to approve the policy.

Committee member Rice said she was okay to move the policy to the Board for consideration.

Mrs. Duffield commented that the Sample Loan Document provided in the policy doesn't reflect the repayment term of seven (7) years that the Board agreed to.

Chairman Pierson said it's just a sample.

Mrs. Duffield suggests changing sample letter to approved seven (7) year term.

Committee member Rice said it should be changed to read fewer than seven (7) years or a maximum of seven (7) years.

Public Comment:

Mike Lyons: Prop 218 was a vote to get money for specific funds. Will the Board answer to ratepayers about where funds are used from Prop 218 revenue? How are they going to defend using the funds if the public objects to using Prop 218 funds for interfund loan transfers?

Committee member Rice stated that the interfund loan policy is for the General Fund to loan money to the Enterprise Funds. We can't take money from an Enterprise Fund and give it to the General Fund, but an Enterprise Fund can repay a loan from the General Fund. Taking money from Prop 218 and using it for other things is illegal.

Chairman Pierson said the rules are very restrictive on Prop 218 funds.

Public Comment:

Karen Dean: It might be an issue that people will think you're loaning monies between the three enterprise funds.

Chairman Pierson asked if he should put in a maximum loan term?

Mrs. Duffield said yes, a maximum of seven (7) years. In the policy it says the amount of interest to be charged for these loans will be calculated using the investment rate earned by the San Luis Obispo County Treasury. Why are we using San Luis Obispo County Treasury rates?

Committee member Rice said the Board should make the decision on the interest rate when an interfund loan is made. The policy should suggest using what's in the Local Agency Investment Fund (LAIF) or whatever interest rate is reasonable.

Mrs. Duffield suggests removing the San Luis Obispo Treasury sentence.

Public Comment:

Donn Howell: In the same paragraph it speaks about Enterprise Funds loaning to other District funds and it should be changed.

Committee member Rice said yes, it needs to be changed.

Chairman Pierson asked if we should get rid of the two sentences about San Luis Obispo Treasury and the one Donn brought up about Enterprise Funds loaning to other District funds?

The committee agreed.

Chairman Pierson said the changes to the policy are: 1) repayment of all loans will be made within a maximum of seven (7) years, and 2) delete the two sentences in paragraph four in the policy section.

Committee member Rice said maybe we should change the sample loan document to eliminate references to dates, terms, and dollar amounts to prevent confusion. We should put blanks where those references are, and they can be filled in when the agreement is prepared.

Committee member Rice made a motion to accept the following changes to the policy: 1) repayment of all loans will be made within a maximum of seven (7) years, and 2) delete the two sentences in paragraph four in the policy section and to eliminate references to dates, terms, and dollar amounts in the sample loan document. We should put blanks where those references are, and they can be filled in when the agreement is prepared.

Vice Chair Siegler seconded the motion.

The motion was approved: 5-Ayes (Rice, Siegler, Pierson, Steidel, Lee), 0-Nays, 0-Absent

C. Receive an Update on the Army Corps of Engineers Grant and IRWM Grant Process

District Engineer Bob Gresens provided the Committee with a PowerPoint presentation on grants (attached).

The Committee had an extensive discussion regarding the grants.

Chairman Pierson asked the \$7 million is not appropriated, right?

Mr. Gresens responded that it's authorized, not appropriated.

Vice Chair Siegler asked if there's \$7 million left, did we actually receive any funds?

Mr. Gresens said no, we used \$6 million to pay for Army Corps of Engineers' (ACE) staff costs for work already done.

Vice Chair Siegler said it's as if ACE is working for us and costs are being paid by allocation.

Mr. Gresens said the \$466,000 loan that went from the General Fund to the water department was to show ACE that we had money to put towards the project. That's still on the books. The Water department is supposed to pay back the loan to the General Fund.

Committee member Rice said she thought we'd written it off but wasn't sure.

Public Comment:

Cheryl McDowell: I think we did.

Vice Chair Siegler asked who would do the project management plan?

Mr. Gresens responded ACE.

Vice Chair Siegler said we would benefit from the work. It's not going to be money out for us, just no money in.

Mr. Gresens responded yes. It's a slow process.

Public Comment:

Cheryl McDowell: Can you get an accounting for allocation?

Mr. Gresens responded yes, he can get that for her.

Chairman Pierson asked Mrs. Duffield to check to see if the loan is still on the books or was written off.

Mrs. Duffield responded that she made a note to do it.

Chairman Pierson said it was in the last audit.

Mr. Gresens provided the Committee with an update on the Proposition 1 grant. We're in the running and need to keep moving forward. Our project ranked 3rd out of 25 projects county-wide. In 2019, the Board will need to discuss the project.

Public Comment:

Mike Lyons: In 2019, Board has to say yes or no on what?

Mr. Gresens said whether the CCSD is going forward with the project. I tried to keep the estimated costs as low as possible.

Public Comment:

Cheryl McDowell: The funds need to be guaranteed by a lender or the district.

Mr. Gresens stated that we need to have further discussion with the Finance Committee and coordinate with the PG&E Turnkey Program.

Mr. Gresens discussed the PG&E Turnkey Program. We can pay for the improvements with on-bill financing where any energy savings from the project is used to offset capitalized project costs. PG&E can do rebates, loans and grants, and can help put together a financing package. PG&E is currently working on a feasibility assessment with their consultant, Michael J Nunley. This will help determine what project elements go into the project. We are planning to have a meeting in December. I will let the committee know the date. This meeting will be a staff-level meeting. It came up at the Infrastructure Committee meeting that committee members may want to attend, but it's not an organized public presentation meeting.

Public Comment:

Cheryl McDowell: Is solar involved in the PG&E program?

Mr. Gresens responded no.

Committee member Rice said PG&E probably doesn't talk about it because it reduces their revenue if people go solar, but it would reduce power lines that can spark and ignite a fire.

Public Comment:

Harry Farmer: When will you know the meeting date and when will the committees know?

Mr. Gresens said I hope to know in a week. I will email the committees. I assume you want to attend?

Public Comment:

Harry Farmer: Yes.

Vice Chair Siegler said the IRWM grant has a September 2019 deadline for the Board to pass a resolution committing \$700,000?

Mr. Gresens responded yes.

Vice Chair Siegler asked how long from that time until grant is awarded?

Mr. Gresens responded six to eight months.

Vice Chair Siegler said we will have a loan out during that time but stop paying interest once the grants are made. If there's no grant, there's no need to have that \$700,000 loan outstanding.

Mr. Gresens said he has to check to see if we have to have loan in hand.

Vice Chair Siegler said he assumes we need loan to show cash and our commitment. Either we don't get a grant and won't need the loan, or we get a grant and decide if we're going to fund the local match through cash flow or the outstanding loan. We really only have six to eight months where we would be carrying a loan without a result in our hands, right?

Mr. Gresens responded I don't know.

Vice Chair Siegler said when we get the loan, we put it in the bank and get interest for six to eight months and one of two things will happen: we get a grant and can do the project or we don't get a grant.

Public Comment:

Cheryl McDowell: Are there other loans the CCSD could qualify for?

Chairman Pierson said let's see what financing PG&E has.

Public Comment:

Cheryl McDowell: Are there SBA loans anymore?

Chairman Pierson said we're a government agency, not a small business.

Committee member Lee said until we know how the pieces fit, what are you asking us to do today?

Mr. Gresens said this is informational only and no action is needed. I wanted the committee to know what I've been working on and we need to be thinking about financing.

Chairman Pierson said it is a good time to have the information before the next budget cycle starts.

Committee member Lee said it makes sense. We appreciate your work.

Chairman Pierson said we need to get a resolution before the Board in the next two to three months.

Committee member Rice said right now they've extended the time for comments on the Board for IRWM. Go to State Department of Water Resources website for information about this. It's good general information and you can submit your comments.

Public Comment:

Mike Lyons: On Proposition 1, if the funds are allocated and awarded and the remedial stuff is done to the wastewater treatment plan, will it have beneficial effects on the SWF?

Mr. Gresens responded it will be a benefit to the lagoon.

Public Comment:

Mike Lyons: You're not saying it wouldn't benefit the plant directly?

Mr. Gresens responded that it could affect nitrate levels.

Public Comment:

Mike Lyons: There's \$7 million left allocated but not released. Will we have to meet ACE requirements first before they will give us money?

Mr. Gresens responded yes. They will want an updated project management plan and to run it by their legal counsel.

Public Comment:

Mike Lyons: If we don't get the \$7 million dollars, will we need to remedy problems to get certification?

Mr. Gresens responded that we can still run the plant, but it could be more costly.

Public Comment:

Jim Bahringer: ACE wants to build stuff, they don't want to look at a study. You need to convince ACE that the project can get done.

Cheryl McDowell: With Bob departing, how are things being followed up on?

Chairman Pierson responded you will have to ask Personnel. It's not a finance issue.

Committee member Rice stated it's not a Personnel issue but more of a transferring of duties.

D. Discussion Regarding the CCSD Owned Vehicle Policy

Chairman Pierson said this was an issue that Paul Nugent wanted to discuss, but since he's not here let's table it until next meeting.

Vice Chair Siegler said \$1.50 per trip seems too high.

Mrs. Duffield responded that it's an IRS rule at that amount. She has the printed copy of the rule if anyone wants to look at it.

E. Discussion and Status on the Mid-Year Budget Review Format

Mrs. Duffield provided an update on the mid-year budget review format and stated she's slowly working on the budget. The format they're following is taking the budget already approved and adding data into that budget to show the mid-year request.

The committee discussed the mid-year budget review format and asked questions.

Committee member Rice asked if there would be a difference column?

Mrs. Duffield said she could put that in there. She will show a point of reference between the original and what was changed.

Chairman Pierson asked are we going to get an update on what spent so far?

Mrs. Duffield said it depends on when the February Board meeting will be, so we can pull the data.

Chairman Pierson said they only need the numbers through December.

Mrs. Duffield said okay. She explained that she's currently working on delinquent accounts with the clerk and trying to get accounts payables caught up. She's hoping the backlog is gone by the end of December.

Chairman Pierson said that at the January committee meeting they would like to see or discuss some of the major things you're foreseeing. The current loan repayment that passed has the wastewater plant fund starting to repay that \$466,0000 in June, so it needs to be in this year's budget. It's been discussed that the payment could be put off for a year.

Mrs. Duffield said she will need direction.

Chairman Pierson said for her to bring it up at the January meeting, and we will give you guidance.

Mrs. Duffield said we've also talked about the interest percent on the loan.

Vice Chair Siegler said we don't need to make that decision now. January would be a good time to raise any issues that you need guidance on.

Mrs. Duffield said we also need to think about the Finance and Infrastructure Committee meeting schedules.

Public Comment:

Karen Dean: The Infrastructure Committee would like to meet one week before the Board meeting and have the Finance Committee meet one week after the Board meeting.

Mrs. Duffield said we need to think about that because that schedule won't work for the budget process.

Committee member Lee said staff needs time to put the agenda packets together.

Committee member Rice said when the Board discusses restructuring in January, we'll be able to clarify issues on timing.

F. Receive an Update on the Audit

Mrs. Duffield said the auditor was at the office yesterday. He did a little bit of initial field work, but he wants to give me two additional weeks to get bank reconciliations updated so he can come in and look at a good trial balance. The bank reconciliations weren't done since July 2017. The former finance manager contracted with MOMS to do the reconciliations, but it wasn't done in totality. They didn't fix any reconciling items. Reconciling items were put into a suspense account that I need to follow up on and clear. The auditor wants them updated through August and I've done January through March so far. He'll be back mid-December. The auditor also wants to confirm that the adjusting journal entries he requested from the former finance manager were done.

Vice Chair Siegler asked do you have enough horse power to get everything done?

Chairman Pierson asked is Alan working?

Mrs. Duffield said yes, two days a week. He's currently doing the higher-level background accounting and year-end accruals. I have new staff in utility billing and payroll. I've been stuck working in operations and policy.

Public Comment:

Cheryl McDowell: Are you current with all depository receipts and payroll?

Mrs. Duffield responded yes. Accounts payable is behind. The auditor was pleased he could have a conversation with me. He said he didn't have much conversations with the former finance manager.

Vice Chair Siegler said thanked Pam for updating the committee on where she stands. We didn't know how far behind things were.

Mrs. Duffield said staff is working hard to get up to speed.

4. FUTURE AGENDA ITEMS

The committee would like to add the following items to the next agenda:

1. Committee restructure
2. Vehicle item postponed from today
3. \$466,000 loan repayment
4. Critical budget items

The committee stated the next meeting will be on Thursday, January 10, 2019, at 10:00 a.m.

5. ADJOURN

Chairman Pierson adjourned the meeting at 12:00 p.m.