



FINANCE COMMITTEE

REGULAR MEETING

Thursday, October 11, 2018 - 10:00 AM to 12:00 PM
1000 Main Street Cambria, CA 93428

AGENDA

- A. CALL TO ORDER
- B. ESTABLISH QUORUM
- C. CHAIRMAN'S REPORT

1. PUBLIC COMMENT

Members of the public may now address the Committee on any item of interest within the jurisdiction of the Committee but not on its agenda today. In compliance with the Brown Act, the Committee cannot discuss or act on items not on the agenda. Each speaker has up to three minutes. Speaker slips (available at the entry) should be submitted to the District Clerk.

2. CONSENT AGENDA

- A. Consideration to Approve the September 13, 2018 Regular Meeting Minutes

3. REGULAR BUSINESS

- A. Discussion Regarding Progress Made on Budget, Allocated Overhead and Reserve Fund Policies and the Finance Manager's Input on the Policies
- B. Discussion and Consideration Regarding Developing an Inter-fund Loan Policy
- C. Discussion and Consideration Regarding New Budget Based on Rates Passing or Not Passing
- D. Discussion and Consideration of Structure of Finance Standing Committee
- E. Discussion and Consideration Regarding Adding an Additional Ad

Hoc Committee for Grant Funding

4. **FUTURE AGENDA ITEMS**
5. **ADJOURN**

TABLE OF CONTENTS

CONSENT AGENDA

MINUTES 1

REGULAR BUSINESS ITEM 3.A.

DISCUSSION REGARDING PROGRESS MADE ON BUDGET, ALLOCATED OVERHEAD AND RESERVE FUND POLICIES AND THE
FINANCE MANAGER'S INPUT ON THE POLICIES 10

REGULAR BUSINESS ITEM 3.B.

DISCUSSION AND CONSIDERATION REGARDING DEVELOPING AN INTER-FUND LOAN POLICY 19

REGULAR BUSINESS ITEM 3.C.

DISCUSSION AND CONSIDERATION REGARDING NEW BUDGET BASED ON RATES PASSING OR NOT PASSING 20



FINANCE COMMITTEE

REGULAR MEETING

Thursday, September 13, 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, Dewayne Lee and Cindy Steidel.

Committee members absent: Amanda Rice.

Staff present: Administrative Services Officer/District Clerk Monique Madrid, Interim Finance Manager Alleyne LaBossiere, District Engineer Bob Gresens, Wastewater Systems Supervisor John Allchin and Deputy District Clerk Haley Dodson.

Public present:

Paul Nugent
Crosby Swartz
Laura Swartz
Harry Farmer
Donn Howell
Cheryl McDowell

C. CHAIRMAN'S REPORT

Chairman Pierson stated that Mr. Gresens and Mr. Allchin requested that Regular Business item 3.F. be moved to the beginning of the agenda for consideration by the committee. The committee agreed.

1. PUBLIC COMMENT

Public Comment:

None.

2. CONSENT AGENDA

A. Consideration to Approve the August 9, 2018 Regular Meeting Minutes

Committee member Siegler moved to approve the meeting minutes as written and stated that Haley did a fabulous job putting together minutes of a very difficult meeting.

Committee member Steidel seconded the motion.

The motion was approved unanimously: 5-Ayes, 0-Nays, 0-Absent

3. REGULAR BUSINESS

A. Discussion Regarding Progress Made on Budget, Allocated Overhead and Reserve Fund Policies

Chairman Pierson introduced the budget policy. The budget policy is in the agenda packet and brought forth by the subcommittee.

Vice Chair Siegler stated he met with Committee member Rice and came up with a bunch of headings to include in the budget policy and that's the document attached in the agenda packet. We've flushed it out and we are hoping for committee feedback, have we captured the headings that this group feels would be necessary for a budget policy? Are there additions, deletions, changes, etc. that anyone would recommend?

Chairman Pierson stated you did a marvelous job. I didn't see big gaps.

Chairman Pierson asked Committee member Lee if anything jumped out for you? He answered no.

Committee member Steidel stated it covered all the categories.

Chairman Pierson stated there is revenue property tax allocation but there's other revenue sources in the general fund.

Vice Chair Siegler stated the other sources of revenues are directly assigned. The rates go strictly to the enterprises.

Mr. LaBossiere gave a description of the general fund revenue. It doesn't seem cost effective to allocated 85k or smaller amount for franchise fees.

The committee had a discussion on retirement rates and tiers.

Chairman Pierson suggested changing the reference of "staff" to "general manager" throughout the document. I like that interim reports are being reported on a quarterly basis. Under calendaring, our rate increases, if approved would be happening July 1st. The board must approve the new increases every year, we need to back that approval to April at the latest. The CIP recommendations are also needed. What projects are the Infrastructure Committee going to have done in the next budget?

Vice Chair Siegler stated the calendar is a target on when we need to have a work product, as opposed to micromanaging how the work product gets put together. If you think we need to address when the CIP recommendations come together, we can do it, but it probably is more for the Infrastructure Committee to decide.

Chairman Pierson responded I was just bringing it up as a reminder. It needs to happen before May.

Ms. Madrid stated the finance manager will take control of the rate increases and the district engineer would work on the CIP with the general manager.

Chairman Pierson stated the CIP should be advanced to an assisted implementation of the budget each year. He would like to see the organizational chart and head count sentence of asking justification for employee additions.

Ms. Madrid suggested using "vacant position" instead of "departed employees" and "authorize open positions" should be "vacant positions." Contractors are not employees and shouldn't be included in the organization chart but are engaged for long-term assignments.

Vice Chair Siegler responded we need to include contractors as part of the spending. Mr. LaBossiere should be included because he's on an assignment for a duration of time and filling a position for an extended amount of time. It shows us how many people are working for the organization. My experience with organizations are that their head counts are different than what they really are. I want to have a chart that shows who we are paying. The bluff trail project had contractors working on the project. I suggest putting an asterisk by employees who work more than fifteen hours a week. Would you help me with the wording in this section?

Ms. Madrid responded yes. We can't create a position without Board approval. We have hired FRM to fill in as a contractor. Alex Handlers is working under a professional services agreement because he's handling a variety of tasks with the rate study. We had temporary employees in the administrative office working on a temporary basis. They are hired as temporary employees covering a vacant position and they are hired using an agency who handles the background process and workers compensation. We pay the agency and it's considered short term.

Public Comment:

Cheryl McDowell – you don't have 1099 employees?

Mr. LaBossiere responded there are no 1099 employees.

Chairman Pierson said that district counsel should be included on the organization chart and Senator Florez should have been listed as an asset.

Ms. Madrid responded that district counsel is included on the organization chart.

Chairman Pierson asked questions regarding the account criteria questions.

Mr. LaBossiere agreed to help Vice Chair Siegler with the description.

Chairman Pierson suggested that Vice Chair Siegler make the changes, reformat the document and bring it back to the next meeting.

Ms. Madrid suggests using the purchasing policy format for new policies.

Public Comment:

Laura Swartz - do we have two or three enterprise funds? Page 46 references three enterprise funds.

Mr. LaBossiere responded that he addressed this before. The auditor combined the SWF in the water fund. An enterprise fund must be self-sustainable and include all faucets of delivering water, etc. The SWF never had a rate structure where it could be self-sustainable. It's involved with water; the auditors haven't treated it as a separate enterprise fund.

Chairman Pierson suggested removing the SWF as an enterprise fund.

Public Comment:

Laura Swartz - when they did the prop 218 to fund the EWS, it was supposed to be independent and not taking money from the water fund.

Vice Chair Siegler stated it doesn't meet the criteria for the separate fund.

Chairman Pierson stated the reason we have separate rates and accounting is because the loan stipulates we must have the accounting and revenue source separate.

Public Comment:

Laura Swartz - any money going into water department, can it be transferred to the EWS at any time because it's considered one entity?

Mr. LaBossiere responded that the auditor supports that.

Public Comment:

Paul Nugent - is the bank aware the revenue source is convoluted?

Mr. LaBossiere stated there's two parts of funding for the SWF. One is for the loan and the other is for operations.

Public Comment:

Donn Howell - stated the two charges on the bill is a standard base charge for the new water facility and the usage charge, which is related to rate payers using the water in general. Those two new figures are related to the new water facility. It needs to be clearly separated for people who don't understand it.

Laura Swartz - this protest is inaccurate for a second time. You gave us three choices, and

there's two. There's one enterprise fund for water and the SWF money can be switched back and forth.

Cheryl McDowell - the last time this board met, you talked about the equipment running for sixty days. Are the rate payers going to be charged for that as an operational cost?

Chairman Pierson responded no you misunderstood. There's no plan to run it for sixty days. It's being run to recirculate water through the plant. We must run the plant for the membranes and for training. That is not the full-blown operation where we take the water from the well field.

Committee member Lee stated we did some research on this when we were looking at construction of the plant to run additional lines. We must keep the filters and seals operational. The plant is turned on 2-4 hours twice a month and the maximum run time is eight hours. It's not producing anything into the aquifer. It

recirculates eight hours a month to keep the equipment operating. It's operating but it's not producing water into the aquifer. It's maintenance.

Public Comment:

Crosby Swartz - when it's being recirculating, it's not producing wastewater that needs to be disposed of. It's fresh water. We don't have the trucking and disposal costs.

Cheryl McDowell - how does one take a tour?

Ms. Madrid responded to send me an email and I'll get you a tour.

Public Comment:

Paul Nugent- we are going to cycle things and leave the rust that's sitting on the top and not paint it? I've seen a lot of stuff that's collecting dust.

Chairman Pierson introduced the reserve policy.

Committee member Steidel stated the two resources we looked at was the special districts recommended outline of policy procedures and the CCSD's existing policy procedures. In reviewing the two items, we created a structure and covered potential items or definitions on the CCSD policy. The major difference is it has more structure to it than a narrative than existed previously. The intent there was to be able to find the overall purpose which wasn't easily identified. I would like the committee's feedback.

Vice Chair Siegler stated are recommending setup to manage our normal operation of purchasing and maintaining assets or whether it's to address unusual circumstances and emergencies. My own definition of reserves is money set aside for unusual circumstances and emergencies, and not general purposes. This seems to be more operationally focused.

Committee member Steidel responded in terms of enterprises, it seemed that most circumstances would be operationally related except for a leak, which would fall in the CIP reserves. It could be too limiting, and we need to expand that.

Vice Chair Siegler stated the vehicle reserve policy would be replacing vehicles. Is this meant to create a fund for doing that or a fund for when the truck breaks down and we don't have the funds available and need to replace the truck?

Committee member Steidel responded it's in relationship with the asset management program and potentially requires replacement in a certain period.

Public Comment:

Cheryl McDowell - introduced set-aside term and was doing it for the CIP project fund, not a black hole reserve. Crosby Swartz- it sounds like you need to have two types of reserves: fixed reserve and a buildup reserve to replace an asset you know you'll need to replace.

Chairman Pierson stated if we want to replace water lines, that's a major expense. If we receive grant money and we need funds to match, we need to have funds set aside to match the grant.

Public Comment:

Paul Nugent - I've here for 3 months and haven't received a water bill yet.

Ms. Madrid responded that we bill bi-monthly.

Public Comment:

Cheryl McDowell - John needs a new vehicle. This was presented to the Board and was declined. if there was a reserve set aside, he'd have the vehicle today.

The committee responded they are trying to establish a reserve policy that hasn't been in place.

Public Comment:

Crosby Swartz- she mentions unplanned events and catastrophic failure but on page 51 it talks about a CIP reserve and vehicle reserve but there's no category for unplanned events.

Laura Swartz- it looks like the decisions already been made by the water and wastewater funds. The decision has been made? Shouldn't that be public knowledge?

Mr. LaBossiere responded that it's been in the board packet. The auditor states it didn't meet the criteria for the fund.

Chairman Pierson stated the CIP can be taken project by project. When a big project comes along, we must have reserves to fund it.

B. Discussion on Buildout Reduction Program Finances

The committee didn't discuss this item.

C. Update on the Fiscal Year 2017-2018 Audit

Mr. LaBossiere stated the September 20th date was based on an email from the auditor to finish up things petty cash count and start on the current. I suggested moving the auditor coming to the district in late October.

Vice Chair Siegler asked is there an expected date of completion?

Mr. LaBossiere responded that we haven't discussed the date of completion. The District was unhappy about the audit being late last year. He's expecting to complete it earlier this year. A viable target date would be December to January.

Public Comment:

Cheryl McDowell - are you redoing the audit?

Mr. LaBossiere responded this is the audit for July 1, 2017 through June 30, 2018.

Mr. LaBossiere stated the approved budget still needs work with the expenditures. I would presume there will be a mid-year budget in November.

Vice Chair Siegler stated since we are doing a draft policy on budgets, what you've said doesn't comply with the proposed policy. I would appreciate if you looked at the mid-year budget portion of the policy.

Mr. LaBossiere responded I will.

Chairman Pierson suggested moving the remaining items to next month's agenda, unless anyone wants to meet twice next month.

The committee agreed.

D. Update on Securing a Finance Manager

Mr. LaBossiere stated that Pamela Duffield is the new finance manager. She was here yesterday and worked at the district several years ago as the assistant finance manager. She has a great background. She's a hard worker, intelligent and has a wide base of knowledge. She left the district because her role here was somewhat limited. She wanted to learn more and that's a very positive thing. Her first day will be October 1, 2018.

E. Discussion and Consideration Regarding Developing an Inter-fund Loan Policy

The committee didn't discuss this item.

F. Discussion Regarding Purchasing a Vehicle for the Wastewater Department

Chairman Pierson introduced the item.

Mr. Gresens stated one of our key service trucks broke down last week and yesterday. It is a 2003 F-350 diesel truck with 250k miles on it. It has a crane to pick up pumps and motors. Mr. Allchin has done research on this and he'll talk about proposal. We looked at several alternatives. We want to make sure this committee can weigh in on it and give us input or direction and at a future board meeting we seek a mid-year budget adjustment to purchase truck. He asked for this truck back in April and it got cut in May. A justification form was included.

Mr. Allchin stated I recommend we replace it with a like size, standard truck. We can return the utility box to that truck and add an auto crane. We don't need a 4-wheel drive vehicle. The box would be supported for the auto crane. This truck has been on several budget requests and it's been cut every time. I got a quote and the current fix is \$5500, and it exceeds the value of the truck. It started dumping fuel under the engine. Perry Ford's bid is \$60k plus tax.

Chairman Pierson asked if anyone is giving us good terms on a financing deal?

Mr. Allchin responded I haven't asked but can send the request to the dealers.

Chairman Pierson stated if we can get a low interest rate, that may be a better way to buy.

Mr. Allchin stated I can get that information.

Ms. Madrid stated we can look at muni finance to see what kind of terms we can get.

Committee member Lee asked how many bids did we get?

Mr. Allchin responded that we got bids that vary from \$59k to \$62k. The bids are like for like.

Mr. LaBossiere stated I previously worked on purchasing two or three trucks for the district and the dealers have the state government rate and it was \$5-\$7k cheaper than the private party rate.

Mr. Allchin responded I don't see the government rate on Perry Ford's proposal.

Vice Chair Siegler asked is there a chance that you can retrofit the existing crane onto a new truck body?

Mr. Allchin responded I don't want to use the existing crane, it's undersized for our equipment, it's manually operated and it's currently damaged. The crane bow is damaged. The crane has tried to lift things out of a man hole that the crane can't lift. The crane is extremely undersized, and we really need to upgrade the crane.

Vice Chair Siegler asked what's being removed from the budget to make this money available?

Mr. Allchin responded good question, we are trying to not reduce the budget. We are trying to figure out creative ways to get the truck purchased without taking money from maintenance.

Vice Chair Siegler stated this is a great example of protesting the rate increases. This truck is obviously something we need as a district, but we don't have the money. If we don't have an offset, i don't see how we could be supporting it. I'm not attacking what you want to do, I'm attacking the district's finances. I feel strongly about supporting rate increases.

Public Comment:

Harry Farmer- seems like an emergency to me. Isn't there a way to do a loan from the general fund now and pay it back if we get the rate increase?

Chairman Pierson asked do you consider this an emergency?

Mr. Allchin responded we are borrowing a truck until October, this will get us along. This is an example of equipment failing because it needs to be replaced.

Chairman Pierson responded bravo to you for adding it to the previous budgets. You're borrowing a truck from Facilities & Resources?

Mr. Allchin responded yes. If we rent a crane, we can. We have a bumper crane and a 2,000-pound crane. We can't pull large items with the 2,000-pound crane that's on another service truck. I want to replace the 2,000-pound crane with a 3,200-pound crane.

Public Comment:

Laura Swartz - didn't we just buy a new truck for the SWF? Wouldn't this be an emergency, more than the SWF?

Chairman Pierson responded that the new SWF employee needed a new truck to do his job and it's an entirely different truck and different fund.

Mr. Gresens stated we can come back to the committee with answers about financing. We can talk about an inter-fund loan and give an explanation about the crane being damaged. We need direction from the committee.

Chairman Pierson responded if we can investigate financing the truck with a zero to two percent loan rate, it's a better solution whether the rates are increased or not. I don't know how the rest of the committee feels. Can we get a municipal loan? What's the financing per month? Is this the number from the state contract? Until we get those answers, we can't make a decision. I recommend you come up with answers to those questions and it be on the full board's agenda for the 10/4 Special meeting. It's also the meeting where we find out if we have new rates or not. The full board can then decide to support it or not.

Public Comment:

Cheryl McDowell - has there been consideration for leasing?

Mr. Allchin responded there was no available lease at this time. Paso Robles Ford said they will not lease construction equipment. It's fifteen years old.

Public Comment:

Paul Nugent - it should have lasted longer? Isn't there training in place for new employees for the crane and what it's capable of?

Mr. Allchin responded upon my arrival there was no crane training. The new crane will come with a training program. The crane I'd like to purchase tells us the boom angle, weight and how much it can lift. The current crane is rusted, and it's been like this for many years.

Committee member Lee said to proceed with getting the information, the wants, the competitive bids from other places, options to buy and the finances with the government program. If we can get that from the staff, the Board of Directors can decide. We are the recommendation.

Chairman Pierson responded bringing this back to us in October would delay the process and suggests bringing it back to the Board for approval on October 4, 2018.

Public Comment:

Donn Howell - is there a procedure for disposing the old crane?

Ms. Madrid stated if it's over \$500, we would ask the board to determine it surplus, advertise and sell it. If it's under \$500 we dispose of it.

4. FUTURE AGENDA ITEMS

Chairman Pierson would like the finance manager's input on both policies at the next meeting.

5. ADJOURN

Chairman Pierson adjourned the meeting at 12:14 p.m.

**CAMBRIA COMMUNITY SERVICES DISTRICT
Budget Policy**

Table of Contents

Table of Contents 1

I. PURPOSE 2

II. PROCEDURES 2

A. Plans, goals, resources2

B. Calendaring2

C. Mid-year Budget Update.....3

D. Organization chart and headcount.....3

E. CIP.....3

F. Overhead Allocation4

G. Income Allocation – Property Tax and Other.....4

H. Structure5

I. Consolidation Entries5

CAMBRIA COMMUNITY SERVICES DISTRICT

Budget Policy

I. PURPOSE

It is the policy of the Cambria Community Services District that an annual Budget will be prepared, presented to the Board of Directors for approval and used as the guide for District spending decisions each year.

The annual budget serves multiple purposes:

- Translate District plans into financial estimates of the impact of those plans.
- Provide a template for resource allocation.
- Establish spending controls consistent with Board objectives.
- Provide a basis for evaluation of actual spending during the year.
- Provide a guidepost for expectations and a basis for determining when actual events are inconsistent with those expectations.

With its approval, the Board of Directors authorizes General Manger to plan for and take actions that are consistent with the Budget, within the limits of other Board policies. Prior to taking action that is inconsistent with either the Budget of other policies, the General Manager will raise the issue for discussion and approval at a public meeting.

II. PROCEDURES

A. Plans, goals, resources

A budget is a financial manifestation of plans and goals. In order to be meaningful, the Annual Budget must include a discussion of District goals and objectives, plans to accomplish those objectives (in the case of multi-year objectives the Annual Budget will address what will be accomplished in the relevant year), available resources and discussion of trade-offs between competing objectives and available resources.

Plans and objectives must be consistent with overall Board policy and direction. They should be developed in such a way that they are measurable. During the year and following each year, the General Manager will report on achievements and gaps between what was achieved and initial plans and objectives. These reports will include the financial implications of these achievements and gaps and plans for remediation if necessary. Interim reports will be presented on at least a quarterly basis.

B. Calendaring

The Annual Budget must be prepared and presented to the Board in a timely fashion. Except under exceptional circumstances, requiring approval by the Board, the Budget must be approved prior to the beginning of each fiscal year. The typical schedule will include the following:

- In April, the Board must consider and approve any changes to rates for the following year.

CAMBRIA COMMUNITY SERVICES DISTRICT

Budget Policy

- Preliminary budget submitted for review by the Standing Finance Committee at the beginning of May.
- Revised preliminary budget, incorporating input from the Standing Finance Committee where appropriate, submitted to the Board at its regular May meeting.
- Annual Budget, incorporating input from the Board, submitted for approval at the regular June Board meeting.
- Special meeting(s) of the Standing Finance Committee and/or the Board may be necessary to resolve difficult issues prior to finalizing the Annual Budget.

C. Mid-year Budget Update

If there is an event or events that materially impacts the assumptions in the Annual Budget, the General Manager will propose and present a midyear update for approval. Any midyear update will be prepared on a schedule that leads to approval as soon as practical after the regular December Board meeting, but no later than the regular February Board meeting. Changes should be limited to the impacts of the triggering event on plans, objectives and financial performance.

D. Organization chart and headcount

Budget documents will include both an organization chart and a numerical count of employees by department. The numerical count of employees will, at a minimum, display the number of employees at the end of the two years prior to the current budget (for example 2016-17 and 2017-18 for the 2018-19 budget) as well as planned headcount at the end of the current budget year.

Employee headcount will include statutory employees, contractors engaged to temporarily fill vacant positions, authorized vacant positions and contractors engaged for long-term assignments who regularly bill more than 15 hours per week.

Potential open positions that will not be filled due to budget constraints should also be noted. New positions require justifications and the General Manager is encouraged to provide a discussion about the relative merits of filling positions or retaining employees as shown in the plan rather than filling open, but unauthorized, positions.

E. CIP

Capital spending plans are by their nature multi-year. Each year, prior to budget preparation, the General Manager should evaluate the needs to acquire or replace infrastructure, facilities, equipment and other capital items for a reasonable time period (five years or more). These plans should prioritize the acquisitions and identify funds available to achieve the plans. All plans should include discussion of the impact of acquiring assets and/or failing to acquire them due to resource limitations.

CAMBRIA COMMUNITY SERVICES DISTRICT

Budget Policy

F. Overhead Allocation

Overhead allocation is a tool to match the costs of administrative functions to the operating activities of the CSD. Administrative functions will be charged to a department or departments that are accounted for in the General Fund. Allocation to the Enterprise Funds, (Water, including the SWF, Wastewater) are necessary to assure that rates will be set to properly reimburse the General Fund for expenses necessary to the delivery of services.

Overhead allocation will take into account four criteria:

- Recovery based on equal distribution to all departments.
- Recovery based on relative size of department. The term “relative size” is a subjective determination based on estimates of each department’s use of resources and impact on the District’s overall mission.
- Recovery based on full-time equivalent employees.
- Recovery based on percent of administrative labor applied to departments as determined by interviewing administrative personnel.

Each type of administrative spending will be reviewed to determine the best method, of the four above, to allocate that expense to the operating departments.

As part of the budget process, the charges to each operating department will be the percentage of total overhead budget derived from aggregating the recoveries applied to each spending line-item. The percentage of overhead spending allocated to each operating department will be set at the beginning of the year and will not be changed unless there is a material change in actual or anticipated overhead spending, or a change in the nature of one or more operating departments that would cause a material change in the recovery methodologies.

G. Income Allocation – Property Tax and Other

Property taxes are the primary source of funds for the General Fund departments. Since administrative overhead is fully allocated, no property tax receipts will be allocated to the administrative department(s). Currently, the departments receiving allocations of property tax are the Fire Department, the Facilities and Resources Department and the Parks, Recreation and Open Space department.

Allocation of property taxes is arbitrary. Ultimately, the allocation is the proper responsibility of the CSD Board of Directors. The methodology is iterative. The General Manager should budget expenses for each of the General Fund departments with an understanding of the likely level of property tax receipts. Once expenses are projected, the General Manager will make a recommendation to the Board about the appropriate allocation of property tax receipts. The recommendation should include discussion about the choices made in the spending projections and potential competition between departments for limited funds. The Board will determine the

CAMBRIA COMMUNITY SERVICES DISTRICT

Budget Policy

extent to which it agrees with the General Manager's priorities and allocate anticipated property taxes appropriately. If necessary, the Budget will be revised to take into account the Board's allocation decision.

Minor sources of income, such as fees and grants, are generally specified to certain funds. When the purpose is unspecified, the Board will allocate funds based on recommendations by the General Manager.

H. Structure

Working with the General Manager, the Board should set operating and financial objectives. This process is discussed above. From a structural standpoint, the budget's financial documents must reflect the financial impact of these objectives. More specifically, budget documents must contain at least the following information:

- Beginning Fund Balance
- Receipts of funds
- Loan Proceeds (external and interfund)
- Expenses
- Capital expenditures
- Loan Repayments (external and interfund)
- Allocation to reserves for:
 - Emergency
 - Replacement
 - Unfunded liabilities such as employee benefits
 - Other
- Other receipts or expenses
- Ending Fund Balance

To the extent necessary, the budget will contain appropriate documents with detail supporting the above line-items.

I. Consolidation Entries

The budget will include at least two consolidation levels: General Fund and District. In the process of consolidation, internal transfers will be eliminated to avoid overstating income and expenses. Internal transfers include, but are not limited to, overhead allocation and interfund loans.

CAMBRIA COMMUNITY SERVICES DISTRICT
Budget Policy

Other potential policy titles

- Interfund transfers and loans
- Spending
- Financial Reporting
- Vehicle policy
- CIP/Asset Management

Reserve Policy

PURPOSE:

Maintain reserve funds from existing unrestricted funds. This policy establishes policy and practices in the use of reserve funds and establishes reserve funding levels to address these specific goals for the applicable Enterprise and General Funds.

- A. Fund replacement and major repairs for the districts physical assets
- B. Fund replacement and upgrade of communications equipment
- C. Fund regular upgrade or replacement of computer hardware, software and other technology assets
- D. Working capital (Operating Reserve) funds for normal operation where timing of tax dollar receipts from the county create a funding shortfall.
- E. Fund, or supplement, previously unplanned/unbudgeted Capital Improvements which are needed
- F. Fund special projects/programs or other special uses not otherwise funded by grants or where additional monetary support is required.
- G. Maintain base for operational response to unplanned events, catastrophic equipment failure or emergency maintenance needs.
- H. Maintain base for unforeseen liabilities, including response requirements to Local and State Agencies

GENERAL:

- A. Use of district reserves is limited to available “unrestricted” funds (not obligated by law, contract or agreement.)
- B. Reserve Fund applications requiring authorization by a board majority:
All other funds not defined by Item C, under _____ General, as well as applications which would fully deplete any given fund.
- C. Reserve Fund applications that can be authorized by the General Manager:
 - (1) Use of the Operating Reserve Funds can be authorized by the General Manager. Operating Reserve funds may be used to fund normal or recurrent annual expenditures in the General Fund when budgeted taxes have not yet been received during a fiscal year. These funds will be replenished when the taxes are received.
 - (2) Application of emergency funds up to \$ _____ will be communicated to board members at time of application. Funding required above that threshold will require board approval within ten (10) days of application request.
- D. The District General Manager is authorized to make recommendations to the District Board of Directors for use of reserves. Any recommendation shall be accompanied by a proposal for the replenishment of the reserves.
- E. The General Manager, in collaboration with the Finance Manager and the standing Finance Subcommittee shall perform a reserve status semi-annually, with alignment to the annual deliberation/approval of FY Budget and Reserve Funds by the Board of Directors. The Board of Directors may, at any time, make changes to this policy to reflect current CCSD operations.

Fund Associations:

The following Reserve requirements are identified and defined by association, monetary threshold and application.

1) Water Enterprise

Capital Improvement and Asset Reserves Min \$ _____ Max \$ _____

Vehicle Fleet Reserve. Vehicle Fleet Reserves will be used exclusively for the purchase of new vehicles to support District operations or to make major repairs to existing vehicles.

Technology Reserve. Technology Reserves will be used to purchase (including upgrade) hardware and software in support of district operations with the intent of maintaining modern technology for efficiency and safety.

Capital Improvement Reserve. Capital Improvement Reserves shall be limited to applications related to making changes to improve capital assets, increase their useful life, or add to the value of those assets. These applications are exclusive to asset acquisition identified in the Capital Improvement Plan (CIP). These funds will be to fund or help fund (as a supplement to grants or other funding) CIP projects in excess of \$100,000.

Emergency Response Reserves Min \$ _____ Max \$ _____

Emergency reserves are set aside for use in a major emergency or system failure not budgeted or in the CIP. Emergency may be activated by a catastrophic event (i.e. earthquake) or by a major system failure (i.e. major water main break, well failure).

Designated Project/Special Use Reserves Min\$ _____ Max \$ _____

Projects, programs or special uses will be identified by the General Manager and/or the Board of Directors and approved by the Board. Projects may include but are not limited to actions such as response to state regulatory requests or requirements. Uses must further the mission of the district and will be based on the significance to the district and the ratepayers.

2) Wastewater Enterprise

Capital Improvement and Asset Reserves Min \$ _____ Max \$ _____

Vehicle Fleet Reserve. Vehicle Fleet Reserves will be used exclusively for the purchase of new vehicles to support District operations or to make major repairs to existing vehicles.

Technology Reserve. Technology Reserves will be used to purchase (including upgrade) hardware and software in support of district operations with the intent of maintaining modern technology for efficiency and safety.

Capital Improvement Reserve. Capital Improvement Reserves shall be limited to applications related to making changes to improve capital assets, increase their useful life, or add to the value of those assets. These applications are exclusive to asset acquisition identified in the Capital Improvement Plan (CIP).

Designated Project/Special Use Reserves Min\$_____ Max \$_____

Projects, programs or special uses will be identified by the General Manager and/or the Board of Directors and approved by the Board. Projects may include but are not limited to actions such as response to state regulatory requests or requirements. Uses must further the mission of the district and will be based on the significance to the district and the ratepayers.

3) General Fund

Operating Reserve Min \$_____ Max \$_____

This reserve is considered a working capital reserve and will be used to fund normal or recurring operating expenditures in the General Fund when budgeted taxes have not yet been received during a fiscal year. The Operating Reserve will be replenished when the taxes are received. Application of emergency funds up to \$_____ will be communicated to board members at time of application. Funding required above that threshold will require board approval within ten (10) days of application request.

Capital Improvement and Asset Reserves Min \$_____ Max \$_____

Vehicle Fleet Reserve. Vehicle Fleet Reserves will be used exclusively for the purchase of new vehicles to support District operations or to make major repairs to existing vehicles.

Technology Reserve. Technology Reserves will be used to purchase (including upgrade) hardware and software in support of district operations with the intent of maintaining modern technology for efficiency and safety.

Capital Improvement Reserve. Capital Improvement Reserves shall be limited to applications related to making changes to improve capital assets, increase their useful life, or add to the value of those assets. These applications are exclusive to asset acquisition identified in the Capital Improvement Plan (CIP).

Designated Project/Special Use Reserves Min\$_____ Max \$_____

Projects, programs or special uses will be identified by the General Manager and/or the Board of Directors and approved by the Board. Projects may include but are not limited to actions such as response to state regulatory requests or requirements. Uses must further the mission of the district and will be based on the significance to the district and the ratepayers.

Regular Business Item 3.B. Attachment

FINANCE COMMITTEE

REGULAR MEETING

Thursday, October 11, 2018

REGULAR BUSINESS ITEM 3.B. DISCUSSION AND CONSIDERATION REGARDING DEVELOPING AN INTER-FUND LOAN POLICY

Over the years, there have been occasions when an Enterprise Fund has had a deficit with no reserves to draw from to offset the deficit. In these situations, General Fund reserves have been used. The treatment of this process has not been consistent. Specifically, are they to be treated as transfers, which are basically gifts, or loans? And if loans, what would be the payback terms? During the Board's discussion at their last regular meeting, it was decided to use an approximation of the current yield offered by the Local Agency Investment Fund (LAIF), which is where the CCSD has its monies not needed for current operations invested. This is a logical rate, but there's one drawback. The rate of return in LAIF changes daily and while the changes have not been large in recent years, in past years, they varied much more and during relatively short periods. It is suggested that in the future, a variable rate tied to the LAIF rate of return could be used.

Related to the matter of funding deficits, the Board had a discussion as to how to fund the projected deficits in the Sustainable Water Facility (SWF) Operating and Construction Departments. It should be noted that the term "department" rather than fund was used as these are actually part of the Water Fund as opposed to stand-alone funds. While they had been termed as separate funds, they were not treated as such by the CCSD auditors since an enterprise fund is a fund that delivers services in all its facets (in this case water) for a fee and is self-sustaining. To date, the SWF has not been self-supporting in terms of its revenue being sufficient to pay all the related expenditures. In addition, the SWF's purpose is to ensure that the CCSD has water during periods of drought when normal methods of obtaining water are not sufficient. As the SWF is a part of the Water Fund, any surpluses generated by the Water Department can be used to offset deficits in the SWF Departments. At this time, the SWF Construction Department has \$305,168.93 of unused funding from its construction loan and grant proceeds, which can be used to fund additional construction activities, but not operations.

FINANCE COMMITTEE**REGULAR MEETING****Thursday, October 11, 2018****REGULAR BUSINESS ITEM 3. C. DISCUSSION AND CONSIDERATION REGARDING NEW BUDGET BASED ON RATES PASSING OR NOT PASSING**

If none of the rate increases called for in the current Proposition 218 process are passed, there will be no effect on the Water/Wastewater/SWF revenue as no revenue related to the proposed rate increases were included in the Fiscal Year 2018/2019 (FY 18/19) Final Budget. However, due to their being projected deficits in Wastewater (\$27,722) and the SWF Operating Department (\$414,751), which the CCSD Board of Directors requested that staff address in their August 23, 2018 meeting, there is still a need for the Uses of Funds to be reviewed and adjusted in a Mid-Year Budget even if none of the proposed rate increases take effect. In addition, there are areas of the Final Budget that have been identified as needing to be addressed, such as line item deficits as well as an error in the Allocated Overhead that necessitate budget revisions. At this time, while the revenue generated by the July-August, 2018 billing cycle slightly exceeded expectation, it is too early to project a revenue increase for the entire fiscal year. However, depending on the timing of the preparation of a Mid-Year Budget, there may be enough information to warrant a review of the Revenue section of the budget.

If the rates are passed, the budget effects would be as follows:

WATER-The proposed rate increase should generate additional revenue of \$320,000 for the 8 months that it would be in effect for in FY 18/19. While the Water Department is not projected to have a deficit in the current fiscal year, it has no reserves at this time, but it does have approximately \$6,000,000 in identified priority Water projects per the Capital Improvement Program. In addition, it has need for additional staffing and reserves should be built up for other purposes besides the projects on the Capital Improvement Program list.

WASTEWATER- The proposed rate increase should generate additional revenue of \$240,000 for the 8 months that it would be in effect for in FY 18/19. Although Wastewater's potential deficit of \$27,722 is well under the amount of additional revenue that would be generated, it should be noted that approximately \$1,000,000 was deleted from Wastewater's requested budgeted expenditures to reduce the projected deficit to that amount. In addition, Wastewater is understaffed, has no reserves, has approximately \$9,000,000 in identified priority Wastewater projects per the Capital Improvement Program and owes the General Fund \$466,000 plus interest. There are \$970,000 in Wastewater Capital Improvement Program projects for FY 18/19 identified as being dependent on the rate increase. Obviously, Wastewater has significant and varied needs to address if the proposed rate increase takes effect.

SWF- The proposed rate increase should generate additional revenue of \$76,000 for the 8 months that it would be in effect for in FY 18/19. With a projected deficit of \$414,751, any additional revenue would be applied to the deficit.