



FALLBROOK PUBLIC UTILITY DISTRICT
MEETING OF THE FISCAL POLICY AND INSURANCE COMMITTEE

AGENDA

THURSDAY, JANUARY 11, 2018
1:00 P.M.

FALLBROOK PUBLIC UTILITY DISTRICT
990 E. MISSION RD., FALLBROOK, CA 92028
PHONE: (760) 728-1125

If you have a disability and need an accommodation to participate in the meeting, please call the Secretary at (760) 728-1125 for assistance so the necessary arrangements can be made.

Writings that are public records and are distributed during a public meeting are available for public inspection at the meeting if prepared by the local agency or a member of its legislative body or after the meeting if prepared by some other person.

I. PRELIMINARY FUNCTIONS

CALL TO ORDER / ROLL CALL

PUBLIC COMMENT

II. ACTION / DISCUSSION -----(ITEMS A—E)

- A. RESERVE FUND UPDATES TO THE DISTRICT'S ADMINISTRATIVE CODE
- B. CALPERS PAYMENT SUMMARY
- C. ACCOUNTING SYSTEM REVIEW/OPTIMIZATION
- D. BUDGET STATUS REPORT OVERVIEW
- E. FINANCE PROJECTS AND SCHEDULES

III. ADJOURNMENT OF MEETING

DECLARATION OF POSTING


I, Mary Lou West, Secretary of the Board of Directors of the Fallbrook Public Utility District, do hereby declare that I posted a copy of the foregoing agenda in the glass case at the entrance of the District Office located at 990 East Mission Road, Fallbrook, California, at least 72 hours prior to the meeting in accordance with Government Code § 54954.2(a).

I, Mary Lou West, further declare under penalty of perjury and under the laws of the State of California that the foregoing is true and correct.

1-4-18
Dated / Fallbrook, CA

Mary Lou West
Secretary, Board of Directors

M E M O

TO: Fiscal Policy & Insurance Committee
FROM: David Shank, Assistant General Manager/CFO 
DATE: January 4, 2018
SUBJECT: Reserve Fund Updates to the District's Administrative Code

Purpose

With the recent approval of the Rate Study, changes are required in the District's Administrative Code. Staff had committed to bring this item to the Committee in January.

Summary

The Rate Study created a new fund structure for the District's enterprises (i.e. Water, Recycled Water, Wastewater) that includes some new reserve funds and sets new target reserve levels. Below is a table that provides a simple summary of the funds under the new fund structure adopted. The table also indicates the fund target balance that is set, if the fund is a new fund for the District and if the target established for the fund is new. The redlined Article 15, which defines the District's fund structure, is attached and shows the changes that are necessary to incorporate the new adopted fund structure.

Funds	Target	New fund	New Target
Water Enterprise Funds			
Working Capital	Three months of O&M costs	No	Yes
Rate Stabilization	Two years of debt service for the Santa Margarita Conjunctive Use Project	Yes	Yes
Capital	Three years of CIP costs	No	Yes
Recycled Water Enterprise Funds			
Working Capital	Three months of O&M costs	No	Yes
Capital	Three years of CIP costs	No	Yes
Wastewater Enterprise Funds			
Working Capital	Three months of O&M costs	No	Yes
Rate Stabilization	10% of total annual revenues	Yes	Yes
Capital	Three years of CIP costs	No	Yes

It is important to note that the accounting system review/optimization may result in recommended changes to the fund structure as well.

Recommended Action

This item is for discussion only. No action is required.

Article 15. Budget and Fund Management

Sec. 15.1 General District's Annual Budget.

Preparation of the District Budget is directed by the Administrative Services Assistant General Manager/Treasurer, CFO. Working with the Fiscal Policy and Insurance Committee the General Managers develops annual financial goals and objectives for the budget in February. A first preliminary Budget is presented to the Board of Directors and public in May and a second preliminary Budget in June. The final Budget is presented in July for adoption, along with a resolution adopting a tax rate for Bonded Indebtedness.

~~The purpose of the budgeting process is intended to enable create a transparent process that enables the Board of Directors to determine water rates, basing costs on changes in wholesale water rates, estimate the Districts revenues and expenses including employee compensation arising from negotiation, negotiations and changes in costs of other costs of operations and to determine the amount of funds to be raised by taxes for Bond Service, standby/availability charges, and new connection fees.~~

Sec. 15.2 Treasurer's Fund.

The Treasurer's Fund is established primarily to account for all District cash and investments and also to record detailed accounting for fringe benefits. Revenues are obtained from a budgeted mark-up on District labor. Revenue and Expense accounts in this fund are closed to the Utility fund annually.

Sec. 15.3 General Fund.

The General Fund shall consist of accounts for property tax revenues and appropriations to other funds as determined by the Board.

Sec. 15.4 Utility Funds.

The Utility Funds consists of three separate funds reflecting the operating departments of Water, Wastewater and Recycled Water. The funds reflect the revenues from water sales, monthly service charges and other recurring fees and all expenses, including Operating and Maintenance (O&M) and General & Administrative (G&A).

Sec. 15.5 Capital Funds.

The Capital Funds consists of all Property, Plant and Equipment and the expenditures ~~therefor as well as revenues from Capital Improvement Charges that are dedicated/restricted to capital expenditures.~~ All use of revenues in the Capital Funds is restricted to capital investments, which includes capital assets as defined by the District's accounting policy and debt service. Sources of funding and expenditures for capital assets are maintained in ~~two~~three separate funds:

Water – all capital assets associated with the water treatment and distribution system; all administrative buildings and equipment; and all construction equipment and vehicles.

Wastewater – all capital assets associated with ~~the~~the treatment ~~facility~~facilities and the wastewater collection system.

Recycled Water – all capital assets associated with the recycled water facilities and the recycled water distribution system.

Sec. 15.6 Equipment Fund.

The Equipment Fund consists of all expenses for field equipment operations, maintenance, repair and replacement. Revenues are obtained from a budgeted mark-up on District labor. Revenue and expenses are closed to the Utility fund annually.

Sec. 15.7 Debt Service Funds.

Debt Service funds shall be established to account for General Obligation Bonds, Certificates of Participation, or other indebtedness which the District may incur for construction, completion, or acquisition of works, for the treatment, storage and distribution of water and water rights, including dams, reservoirs, storage tanks, treatment facilities, pipes, pumping equipment, and all necessary equipment and property therefor. The funds shall record annual transactions showing source of revenue, and both interest and principal payments.

Sec. 15.8 Appropriated Fund Balances.

Appropriated Fund Balances shall be established to provide adequate funding to meet the District's short term and long term plans and commitments; to minimize adverse annual and multi-year budgetary impacts from unanticipated expenditures; and to preserve the financial stability of the District against present and future uncertainties in an ever-changing environment. The following Appropriated Fund Balances will be established and maintained.

15.8.1 Utility Funds Appropriated Fund Balances.

1. Water.

- a) Working Capital. To be established and maintained at a level of three months operating and maintenance expenses ~~less including~~ water purchases.
- ~~b) Extensive System Failure Fund. To be established at \$750,000 to be used to defray costs of unexpected, unforeseen repairs caused by an extensive system failure.~~
- ~~c) Water in Storage. To be able to fill Red Mountain Reservoir should it be required because of unforeseen, unexpected dumping of contents. Level of fund to be established each year during the budget cycle based on current price of purchased water.~~
- d) b) Rate Stabilization Fund. To prevent "spikes" and mid-year changes in rates because of net revenue shortfalls due to weather conditions, state or federal legislation, ~~uncertainties in the utility markets~~ or other future uncertainties. ~~To be set at a~~The target level is set equal to 2-years of 25% of NET water sales (revenues less cost of water) with a maximum of 50% of net water sales. ~~debt service payments on the Santa Margarita Conjunctive Use Project financing.~~

2. Wastewater.

- a) Working Capital. To be established and maintained at a level of three months operating and maintenance expenses ~~(less Debt Service contribution).~~
 - ~~b) Extensive System Failure Fund. To be established at \$25,000 to be used to defray costs of unexpected, unforeseen repairs to the treatment or collection facilities caused by extensive system failure.~~
 - b) Rate Stabilization Fund. To promote smooth and predictable rates and charges a Rate Stabilization Fund is established with a target of level equal to 10% of annual revenues.
3. Recycled Water.
- a) Working Capital. To be established at three months operating and maintenance expenses ~~(less Debt Service contribution).~~

15.8.2 Utility Capital Funds Appropriated Fund Balances.

~~To fund capital projects and needed replacements to both the water system and the wastewater systems, vehicles, operating equipment and office equipment.~~

1. Water Capital Fund.

~~These funds are restricted by~~The primary source.—Some funds flowing into the capital funds are restricted by the nature of their source and restricted for that source use only. —Currently, those source restricted funds are the 1958 Annexation, funds are the Water and Pumping Capital Improvement charges, annexation fees, connection fees, and meter fees. Target fund balance is set to the equivalent of 3-year average expenditures on recurring capital projects (*i.e.* pipeline renewal/replacement).

- a) Funds related to the 1958 Annexation and the DeLuz Service Area bond proceeds; and are tracked separately in the 1% property tax savings fund.

~~2. Construction/Acquisition.~~

~~To be set initially plus two outyears of capital projects and not to exceed 150% of target.~~

~~2. _____ 3. Wastewater Capital Fund.~~

~~To be set initially plus two outyears of capital projects and not to exceed 150% of target.~~

The primary source of funds are Wastewater Capital Improvement Charges, connection fees and meter fees. Target fund balance is set to the equivalent of 3-year average expenditures on recurring capital projects (*i.e.* pipeline renewal/replacement).

3. Recycled Water Capital Fund.

Target fund balance is set to the equivalent of 3-year average expenditures on recurring capital projects (*i.e.* pipeline renewal/replacement).

15.8.3 Debt Service Funds.

Each borrowing activity is maintained within a separate Debt Service fund. Some indentures require the establishment of a reserve fund and the District must comply with any creditor imposed requirements. Since sources of funding to repay each debt instrument varies, the possibility of that inflow being interrupted is likely/possible with different issues in differing circumstances. Because of the possibility of this interruption, each Debt Service Fund should establish an Appropriated Fund Balance equal to the next year's total debt service (principal and interest).

~~15.8.4~~ Board Review:
~~Each year, after the audited financial statements have been accepted, the Board will move or shift Fund Balances, as necessary, to comply with these policies.~~

Sec. 15.9 Petty Cash.

The responsibility for and the accountability for the petty cash fund is assigned to the ~~Administrative Services Assistant General~~ Manager/~~Treasurer~~CFO and/or the Accountant. The fund at all times will total \$400.00 in cash and disbursement receipts. When an employee requires reimbursement, not-to-exceed \$50.00, for an out-of-pocket District expense, a petty cash voucher is filled out and the receipts for purchases attached.

Reimbursement will not be made from the petty cash fund without the immediate supervisor's approval on the petty cash voucher and receipts attached thereto.

During the planned absence of either the ~~Administrative Services Assistant General~~ Manager/~~Treasurer~~CFO or Accountant, the Supervising Accounting Assistant will be authorized to make petty cash reimbursements. Prior to assumption of these duties, cash in the fund will be counted and verified by both the ~~Administrative Services Assistant General~~ Manager/~~Treasurer~~CFO and Accountant.

Periodic audits will be performed as required by District management or the Auditor. Checks drawn to replace the disbursement will be processed in the same manner as any other invoice paid by the District.

ARTICLE 15
Sec. 15.8 - Rev. 74/97
Sec. 15.4 & 15.5 - Rev. 4/03
Sec. 15.8 added 4/03
Sec. 15.1 & 15.9 - Rev. 6/06
Sec. 15.9 - Rev. 8/08
Sec. 15.6 - Rev. 9/09
Sec. 15.8.1 - Rev. 12/09
<u>Secs. 15.1, 15.5,</u> <u>15.8.1, 15.8.2, 15.8.4,</u> <u>15.9 - Rev. 1/18</u>

M E M O

TO: Fiscal Policy & Insurance Committee
FROM: David Shank, Assistant General Manager/CFO *DS*
DATE: January 4, 2018
SUBJECT: CalPERS Payment Summary

Purpose

Summarize the last five years of CalPERS payments and provide a brief overview of the underlying cost accounting. Staff had committed to bring this item to the Committee in January.

Summary

The California pension system was reformed in January 2013. The reform sought to control the cost of the public pension system by changing how pension payments are determined. In addition to changes at the State level, accounting standards for pensions has also changed. Driven by the changes in accounting standards CalPERS began, in FY 15-16 for pooled plans, showing the Unfunded Actuarial Liability (UAL) as a separate cost item from the Normal Annual Cost or the Annual Required Contribution (ARC). The attached table shows the history of the District's pension costs as well as employee contributions to the pension system. Beginning in FY 12-13, the employees began to pick up their contribution, which was previously paid by the District.

While the District's total payments have trended down over the period shown, changes to how CalPERS calculates the pension costs and liability will drive the District's pension costs upwards. The UAL payment (prior to lump sum payment discount) next year will be \$730,148 based upon the CalPERS June 30, 2016 valuation, which is a 28% increase. The normal cost rate for Classic employees will be 11.419%. This is up from the 10.848% normal cost rate for the current year. The contributions to PARS and increased share of employees under PEPRA will help to mitigate some of the future increase in costs.

While all of the payments to CalPERS have been recorded, the cost accounting for the expenses is an area that needs further analysis. The goal of this analysis will be to eliminate the current cost accounting method that uses a fringe burden and instead allocate costs directly to the funds streamlining and cleaning up the cost accounting for pension and other employment costs. This a key component of the accounting system review/optimization project.

Recommended Action

This item is for discussion only. No action is required.

Fiscal Year	Classic		PEPRA		Total Employer Cost (ARC)**	UAL Payment*	FPUD Pension Cost***	Classic Employee Share
	Employee Contribution	Employer Contribution	Employee Contribution	Employer Contribution				
FY 11	0.00	1,368,811.25			1,368,811.25		1,368,811.25	Employee share 0%
FY 12	90,295.51	1,474,110.84			1,474,110.84		1,474,110.84	Employee share 2%
FY 13	180,927.29	1,431,717.38			1,431,717.38		1,431,717.38	Employee share 4%
FY 14	278,522.19	1,346,226.81	8,808.77	9,080.08	1,355,306.89		1,355,306.89	Employee share 6%
FY 15	344,424.50	734,997.06	24,479.87	25,233.30	760,230.36		760,230.36	Employee share 8%
FY 16	317,041.63	428,763.45	49,727.65	49,727.65	478,491.10	388,153.00	866,644.10	
FY 17	311,996.15	429,214.89	84,516.58	90,111.30	519,326.19	459,468.00	978,794.19	
FY 18	Budget Projection				593,281.00	572,211.00	1,165,492.00	
FY 19						730,148.00		

*includes classic and PEPRA employee costs.

** Includes UAL in years prior to 15-16.

*** Does not include transfers to PARS or side fund payment.

M E M O

TO: Fiscal Policy & Insurance Committee
FROM: David Shank, Assistant General Manager/CFO DS
DATE: January 4, 2018
SUBJECT: Accounting System Review/Optimization

Purpose

Summarize the findings of the accounting system review conducted over the past three months.

Summary

With the financial audit completed and a clean opinion provided, a detailed review of the accounting system's configuration was completed. The review focused on how the cost/fund accounting was being managed in the system. Several areas were identified as needing improvement. The areas for improvement are identified below:

- **Cash balances** – The current system allows cash balances to be tracked by fund. However, because accounts payable and accounts receivable are not tracked by fund, cash balances by fund are off. Putting accounts payable and receivable in the funds will allow accurate cash balances by fund to be maintained in the system.
- **Streamline Payroll** – Payroll currently takes an inordinate amount of time to process and Springbrook will not support enhancements without completely reworking the system structure. As a result, a third party service is necessary to support electronic timesheet entry and processing into Springbrook.
- **Fringe Burden/Employee Benefits** – The system uses a burden on labor costs to fund revenue transfers to the Treasury Fund to pay for employment expenses. While this works, it creates a complex set of due too/due from entries to track fund contributions, which is difficult to audit. A simpler and more direct accounting approach would greatly simplify this and make the accounting much simpler.
- **Warehouse** – Similar to the fringe burden, the warehouse costs are collected by a burden in work orders. The revenues from the burden are transferred to the Warehouse Fund and used to pay expenses. Rather than using a burden in the work order, staff is evaluating a direct allocation methodology like that for fringe.
- **General Ledger Chart of Accounts** – The current accounting system set-up relies heavily on the Work Order module and makes all costs flow through a work order. Typically a work order is associated with a maintenance task,

however, the District uses work orders to track all costs. The work orders tie to the General Ledger (GL), which is the District's set of numbered accounts for its accounting records, and post to its accounts. Each work order has one GL account so a work order with several different expenditures hits one GL account. As a result the number of accounts on the GL has been significantly reduced. With multiple work orders hitting the same GL, the ability to differentiate different costs on the GL has been greatly reduced.

- **Budget Controls** – The configuration of the accounting system makes it very difficult to implement budgetary controls and track budgets. Budgetary controls ensure appropriation limits are not violated by overspending.

Staff have identified the resources to support these efforts and have a plan to complete a majority of this work by April of this fiscal year. Since it is likely that as these issues are addressed others will be identified, a Phase II will likely be necessary next winter. The cost estimate is being developed and will be available at the Committee meeting.

Recommended Action

This item is for discussion only. No action is required.

M E M O

TO: Fiscal Policy & Insurance Committee
FROM: David Shank, Assistant General Manager/CFO 
DATE: January 4, 2018
SUBJECT: Budget Status Report Overview

Purpose

Review the new format for the Budget Status Report. Staff had committed to completing this effort and providing it to the Committee in January.

Summary


A Budget Status Report is intended to provide current information on the financial performance of the District. To achieve this the report shows a mix of information including monthly, year-to-date, and remaining budget. The prior monthly activity allows large variances between budget and actual to be quickly identified. The fiscal year-to-date information provides a picture of the District's financial position and identifies any trends during the year. The final column of data shows where the line item is with regards to budget and budget remaining. The top of the far right column shows what percent of the current year remains (i.e. 50% at December). This can be helpful when looking at straight lined and other numbers because it indicates the extent the budget is over or under for that time of the year. The Budget Status Report for December is being finalized will be provided at the Committee meeting.

To generate the Budget Status Report, each cost and revenue stream was evaluated and historic trends in the data analyzed. As a result, all of the monthly and year-to-date data is adjusted to reflect historic trends. For example, property tax is received intermittently through the year. The remittance pattern was identified and applied to the budget so that each month's receipts reflect the monthly payment received in the past. That allows a very good assessment of what would be expected each month and what would be expected for the year-to-date. The current report projects year-end amounts based upon limited analytics and in some instances maintains the budget projection, which makes the report very limited in value and subject to large and unexpected variations.

Recommended Action

This item is for discussion only. No action is required.

M E M O

TO: Fiscal Policy & Insurance Committee
FROM: David Shank, Assistant General Manager/CFO 
DATE: January 4, 2018
SUBJECT: Finance Projects and Schedules

Purpose

Review the various planned finance projects and their schedules.

Summary

A number of projects have been identified over the past several months by the Committee and the Board. This memo provides a summary of each project and outlines the completion schedule. The projects have been broken into three focus areas. Each focus area and the related projects are listed below. Attachment A provide a timeline for all the projects.

Accounting:

- **Accounting system review/optimization** – The current system configuration creates unnecessary and multiple journal entries. The current cost accounting structure also requires cumbersome journal entries to track basic things like cash and investment by fund. By making some changes in the system configuration, staff will reduce the number of journal entries, allow better tracking of cash/investments by fund, eliminate the fringe and warehouse burdens on labor and support better budget monitoring. With new auditors coming on board this work needs to be tested and implemented before the end of April. Because of the state the General Ledger is in and the way cost accounting had been structured, a phase II is also planned next winter to finish any items that were uncovered by the audit or system review.
- **Streamline Payroll** – Payroll currently takes an inordinate amount of time to process and Springbrook will not support enhancements without completely reworking the system structure. As a result, a third party service is necessary to support electronic timesheet entry and processing into Springbrook. The goal is to complete this by the end of April.
- **Auditor RFP/Selection** – The current auditor has served the District for five years. It is a best management practice to limit the number of years an auditor can serve for to ensure the financial reporting is kept to the highest standards. The District has issued a Request for Proposals (RFP) and is contacting potential auditors to solicit a proposal from them.
- **FY 17-18 Audit** – This is expected to take additional time as the new auditor learns the District system and performs the necessary tests for the first time. In addition, the District has set the goal of issuing its first Comprehensive Annual Financial Report (CAFR). A CAFR requires additional information that was not included in the District's Annual Financial Statements and is considered a best management practice. The issuance of a CAFR and the receipt of the award of excellence would not only elevate the District's

financial disclosure but also enhance transparency. The schedule will be based on input of the selected auditor.

Budget:

- **FY 18-19 Budget** – The development of the next year’s budget has already begun. Staff are reviewing layout and content to establish a suitable balance of detail to provide transparent and accurate data. The financial system as it is currently configured make budget controls and status updates very difficult to do. The budget will be structured to work with the reconfigured financial system to yield the level of detail necessary to track and manage the annual budget. Per Article 15 of the Administrative Code, the Board will be presented the budget in May. Staff will engage the Committee before that to review layout and preliminary data.
- **Rate and Charge Adjustment** – Metropolitan’s Readiness-to-Serve (RTS) Charge was modified effective January 1, 2018, to eliminate an overcharge. This will be changed and the RTS charge modified to recover the appropriate amount.
- **CY 2019 Rates and Charges** – The rate and charge assumptions must be updated with CY 2019 data to support budget revenue and water cost assumptions. While the rate and charge levels will be vetted during this process, the rates and charges will not be adopted until late CY 2018.
- **Finalize Rate Model** – The rate model developed by the consultants must be modified and used to establish CY 2019 and beyond rates and charges. This requires that staff be able to annually update the assumptions on water costs, O&M, other revenues, and sales levels to set the rates and other things. The goal is to get this effort underway and completed by the end of March.

Reporting:

- **Budget Status Report** – The report is designed to enable a quick assessment of the District’s budget status. The report shows expected monthly activity, year to date, and remaining budget.
- **Treasurer’s Report** – The current treasurer’s report needs some basic enhancements. All funds and transactions should be reflected in the report. The report should show basic information in an easy to understand form. A mock report will be developed this month and brought to the Committee in February.
- **State Controller Report** – Each year the District must file certain reports with the State Treasurer’s Office. The reports must be filed in January.

Recommended Action

This item is for discussion only. No action is required.

Attachment A

	FY 2017-18												FY 2018-19											
	July	Aug	Sept	Oct.	Nov.	Dec	Jan	Feb	March	April	May	June	July	Aug	Sept	Oct.	Nov.	Dec	Jan	Feb	March	April	May	June
Accounting																								
Accounting System Review/Optimization					Assessment			Phase I: Implementation					Phase II: Implementation											
Payroll Process Improvements								RFP	Award/Implement															
Auditor RFP/Selection								RFP		Award														
Audit FY 17-18													TBD Audit Schedule											
Budget																								
FY 2018-2019 Budget						Development					Meetings/Adopt													
Rate & Charge Adjustment													RTS											
CY 2019 Rates and Charges																Hearings/Adoption								
Finalize working rate model								Final model/Budget support																
Reporting																								
Budget Status						Develop/Final																		
Treasurers Report						Develop/Final																		
State Controller Report						Due																		