



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

AGENDA

WEDNESDAY, SEPTEMBER 19, 2018
3:00 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

A. INVESTMENT OPTIONS WITH PFM

Presented by: Richard Babbe, Senior Managing Consultant, PFM

B. FISCAL YEAR FINANCIAL RESULTS

Presented by: David Shank, AGM/CFO

C. MUTUAL SERVICES AGREEMENT BETWEEN THE FALLBROOK PUBLIC UTILITY DISTRICT AND THE VALLEY CENTER MUNICIPAL WATER DISTRICT

Recommendation: That the Fiscal Policy and Insurance Committee approve the attached mutual services agreement between the Fallbrook Public Utility District and the Valley Center Municipal Water District.

D. UPDATE ON ADMINISTRATIVE SERVICES PROJECTS AND SCHEDULES

III. ADJOURNMENT OF MEETING

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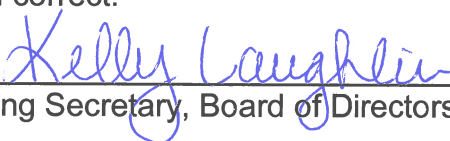
DECLARATION OF POSTING

I, Kelly Laughlin, Acting 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, Kelly Laughlin, further declare under penalty of perjury and under the laws of the State of California that the foregoing is true and correct.

SEP 13 2018

Dated / Fallbrook, CA



Acting Secretary, Board of Directors

INVESTMENT OPTIONS WITH PFM



Fallbrook Public Utility District Strategy Discussion

September 19, 2018

PFM Asset
Management LLC

601 S. Figueroa
Suite 4500
Los Angeles, CA 90017

213-489-4075
pfm.com



Investment Strategy Overview

- I. Your investment parameters
- II. Universe of Available Investments
- III. Value Along the Yield Curve
- IV. Impact of Market Value Changes on Earnings
- V. Benchmarking
- VI. Historical Rolling Average Treasury Yields
- VII. Total Return Treasury Benchmarks
- VIII. Volatility of Different Duration Benchmarks
- IX. Total Return Comparisons
- X. Recent Economic Conditions



Your Investment Parameters

Purpose: The purpose of the investment program is to support the mission of the Fallbrook Public Utility District (District), which is to provide for the community of Fallbrook, now and in the future, a reliable supply and delivery of high-quality retail potable water service. And to see to the collection, and disposal, of wastewater and solids, consistent with the optimal use of recycled water in the most efficient and economical means possible.

Standard of Care: Per California Government Code (CGC) 53600.3, the District's investment officers are fiduciaries subject to the prudent investor standard. Accordingly, they "shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency."

Code Mandated Investment Objectives: As specified in CGC 53600.5, when investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, the **primary objective** of a trustee shall be to safeguard the principal of the funds under its control. The **secondary objective** shall be to meet the liquidity needs of the depositor. The **third objective** shall be to achieve a return on the funds under its control.

District's Investment Objectives: The District's objectives as stated in its Investment Policy are, in priority order:

1. The **primary** objective shall be to safeguard the principal of the funds under the Treasurer's control.
2. The **secondary** objective shall be to meet the liquidity needs of the District.
3. The **third objective** shall be to achieve a return on the funds under control of the Treasurer within the parameters of prudent risk management.

What is your preferred balance between the objectives of Safety, Liquidity, and Yield?



Investment Universe vs. California Government Code

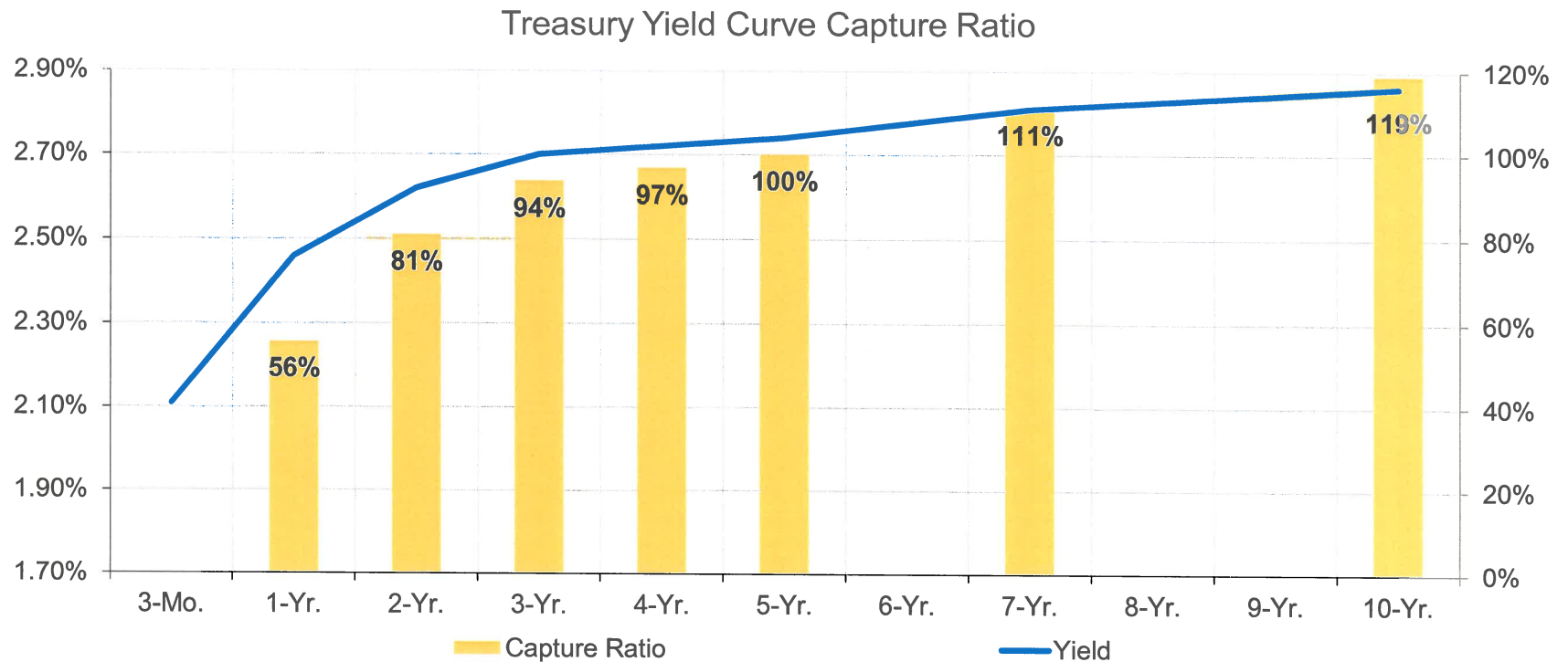
		Overnight	180 Days	270 Days	1 Year	5 Years	Beyond 5 Years	
"Conventional" Fixed-Income	U.S. Treasuries	Permitted					Requires Approval	
	Federal Agencies	Permitted					Requires Approval	
	Municipal Securities	Permitted					Requires Approval	
	Negotiable Certificates of Deposit	Permitted					Requires Approval	
	Commercial Paper	Permitted			Prohibited			
	Bankers' Acceptances	Permitted		Prohibited				
	Medium-Term Corporate Notes ("A" or Better)	Permitted					Prohibited	
	Asset-Backed Securities (ABS)	Permitted					Prohibited	
	Supranationals ("AA" or Better)	Permitted					Prohibited	
	Repurchase Agreements	Permitted					Prohibited	
Money Market Funds/Bond Mutual Funds	Permitted	Prohibited						
Local Government Investment Pools	Permitted	Prohibited						
Broader Fixed-Income	Foreign Sovereign	Prohibited						
	Fixed-Income ETFs	Prohibited						
	High-Yield Bonds	Prohibited						
	Private Placements	Prohibited						
	Convertibles	Prohibited						
	Non-U.S. Dollar Investment Grade	Prohibited						
	Emerging Markets Debt	Prohibited						
	Bank Loans	Prohibited						
Equities	Domestic Equities (Large Cap, Mid-Cap, Small Cap)	Prohibited						
	International Equities (Large Cap, Mid-Cap, Small Cap)	Prohibited						
	Emerging Markets	Prohibited						
	Preferred Stock	Prohibited						
	Equity Mutual Funds and ETFs	Prohibited						
Alternatives	Commodities	Prohibited						
	Real Estate	Prohibited						
	Hedge Funds	Prohibited						
	Private Equity	Prohibited						
	Venture Capital	Prohibited						
	Tangible Assets	Prohibited						
	Complex Derivatives, Futures and Options	Prohibited						

Source: California Government Code Section 53601



Value Along the Yield Curve

- Although longer term securities will typically offer higher yields, they are more sensitive to changes in market value in response to changes in interest rates.
- In the current interest rate environment, the yield curve is fairly flat. As a result, there is only a marginal increase in yield for each unit of duration.



Source: Bloomberg, as of 8/31/18. Percentages based on the spread between a 3-month T-Bill at 2.11% and a 5-year Treasury Note at 2.74%.



Impact of Market Value Changes on Earnings

- Although longer term securities will typically offer higher yields and higher income, they are more sensitive to changes in market value in response to changes in interest rates.
- The following table estimates the earnings on both an accrual and market value basis of different maturity Treasury securities. When interest rates are increasing, the increase in accrual income from a longer-term security can often be offset by the change in interest rates.

Earnings Estimates – Different Maturity Securities

Maturity	Duration	Yield	Accrual Income	Change in Market Value			Market Value Returns		
				0.0%	0.5%	1.0%	0.0%	0.5%	1.0%
1 yr.	0.00	2.46%	24,600	\$0	\$0	\$0	\$24,600	\$24,600	\$24,600
2 yr.	0.90	2.62%	26,200	\$0	(\$4,500)	(\$9,000)	\$26,200	\$21,700	\$17,200
3 yr.	1.85	2.70%	27,000	\$0	(\$9,250)	(\$18,500)	\$27,000	\$17,750	\$8,500
5 yr.	3.75	2.74%	27,400	\$0	(\$18,750)	(\$37,500)	\$27,400	\$8,650	(\$10,100)
7 yr.	5.65	2.81%	28,100	\$0	(\$28,250)	(\$56,500)	\$28,100	(\$150)	(\$28,400)
10 yr.	8.5	2.86%	28,600	\$0	(\$42,500)	(\$85,000)	\$28,600	(\$13,900)	(\$56,400)

Assumptions: Treasury yields are as on August 31, 2018 from the U.S. Department of the Treasury. Earnings are estimated at the end of a one year period assuming a \$1.0 million security. Yield income is equal to \$1 million par times the securities yield. The duration are estimates at the end of the one year. The change in market value represents the decline in the security's market value at the end of one year in response to a 0.0%, 0.5%, or 1.0% change in interest rates. The market value return equals the yield income plus the change in market value at the end of one year. Interest rate changes are assumed to be parallel and instantaneous at the end of the one year time horizon. The values are approximations. Actual values would vary.



Benchmarking

- The purpose of a benchmark is to provide an objective standard for measuring the performance of a portfolio.
- An effective benchmark will reflect both the investor's return and risk preferences.
- The benchmark should be an objective standard that can be independently obtained. It should be consistent with the underlying strategy.
- A portfolio manager will use the benchmark as a guide to how to make investment decisions. The manager's objective is normally to equal or exceed the performance of the benchmark over time in a manner consistent with the benchmark's risk parameters.
- We recommend total return benchmarks, as they incorporate the impact of both income received and market value changes. Total return benchmarks are normally used with an active management strategy.
- Some entities use a rolling average yield as a benchmark. This is more commonly used with a buy and hold strategy.
- There are a number of benchmarks available. The following are a few of the available ICE BofAML total return benchmarks:

0-1 Year AAA-A US Corporate Index
0-1 Year U.S. Treasury Notes & Bonds
0-1 Year US Composite Agency Index
0-3 Month U.S. Treasury Bills
0-3 Year U.S. Treasuries
0-5 Year U.S. Treasuries
1-10 Govt/Corp A or better
1-10 Year Treasuries/Agencies
1-10 Year U.S. Agencies
1-10 Year U.S. Treasuries
1-3 Year Corporates (A-AAA)
1-3 Year Treasuries/Agencies
1-3 Year U.S. Agencies
1-3 Year U.S. Treasuries
1-3 Year US Govt/Corp AA-AAA
1-3 Yr. US Corporate & Government, AAA-A

1-5 Year A Rated U.S. Corporates
1-5 Year AA Rated U.S. Corporates
1-5 Year AAA Rated U.S. Corporates
1-5 Year Corporate Index
1-5 Year Corporates (A-AAA)
1-5 Year Domestic Master
1-5 Year Govt/Corp (AA or Better)
1-5 year Govt/Corp, A or better, US issuers
1-5 Year Treasuries/Agencies
1-5 Year U.S. Agencies
1-5 Year U.S. Treasuries
1-5 Year US Govt/Corp
1-5 Year US Govt/Corp, A-AAA
1-Year U.S. Treasury Note
3-5 Year Corporates (A-AAA)
3-5 Year Treasuries/Agencies

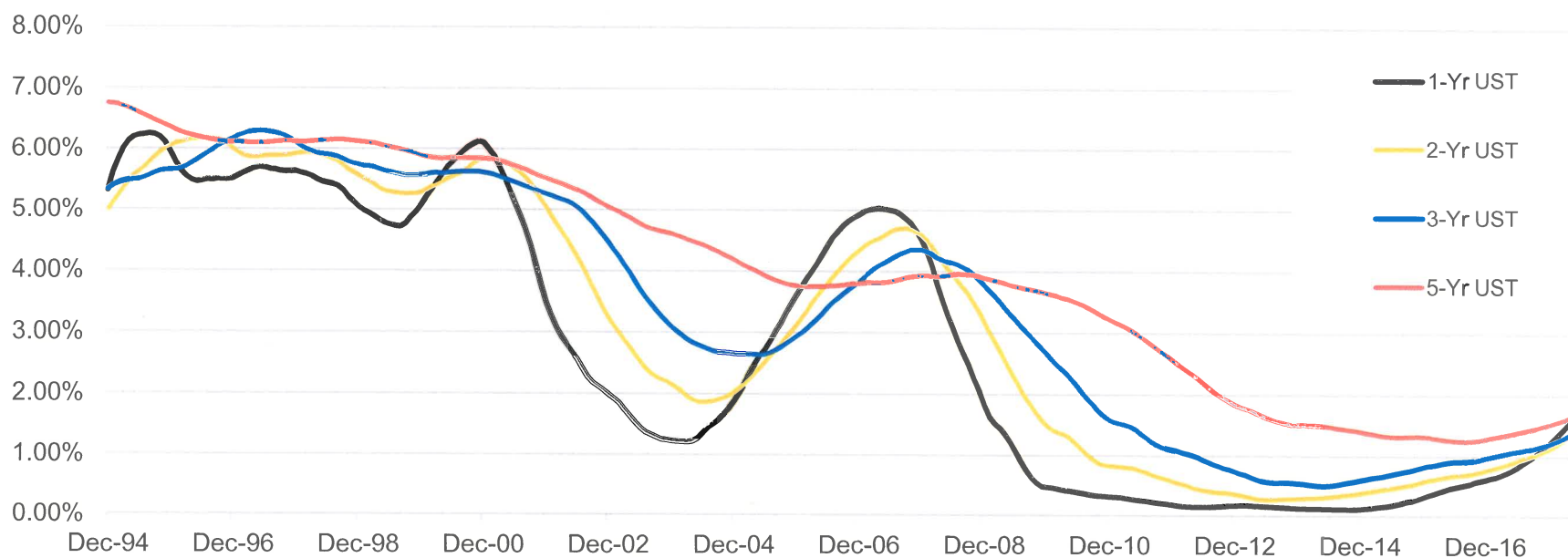
3-5 Year U.S. Agencies
3-5 Year U.S. Treasuries
3-6 Month U.S. Treasury Bills
3-Month U.S. Treasury Bill
5-10 Year Treasuries/Agencies
5-10 Year US Treasury Index
6-Month U.S. Treasury Bill
9-12 Month U.S. Treasury Notes & Bonds
Current 2-Year U.S. Treasury
Current 3-Year US Treasury Index
Current 5-Year U.S. Treasury
U.S. Treasury Bills
US Corporates, AAA, 1-3 Yrs..
US Corporates, AA-AAA, 1-3 Yrs.
US Corporates, AA-AAA, 1-5 Yrs.
US Corporates, AA-AAA, 1-5 Yrs.



Historical Rolling Average Treasury Yields

- The following chart compares the rolling average yields for the 1-, 2-, 3-, and 5-year U.S. Treasuries. The purpose is to show how portfolios with different average maturities have reacted to changes in interest rates. For the purposes of this comparison, the chart only considers average yields. Changes in the market values of the underlying securities are not considered.
- Over time, a longer maturity will provide higher average return, but no one strategy provides the highest return at all times and under all interest rate conditions.

U.S. Treasury Rolling Average Yield
December 31, 1994 to August 31, 2018



Treasury Yield Source: U.S. Department of the Treasury. The rolling average maturity is calculated based on the maturity of the underlying security. For example, the average maturity of the rolling average of the 5-year U.S. treasury is 2.5 years while the average maturity of the 1-year U.S. treasury is 0.5 years. Past performance is not indicative of future results and yields may vary.



Total Return Treasury Benchmarks

- Unlike a yield comparison, total return includes unrealized gains and losses as part of calculating the portfolio's return.
- Duration is the primary detriment of a fixed-income portfolio's performance over time.
- The selection of a performance benchmark sets the overall direction of how the portfolio is managed. It should be driven by the entity's liquidity requirements and risk-return preferences.
- The District's current benchmark is the benchmark is the ICE BofAML 1-5 year Govt/Corp, A or better, US issuers only index.
- Over an entire interest rate cycle, longer duration portfolios provide higher average returns and accrual earnings, but with increased volatility.
- When interest rates are increasing rapidly, shorter-term portfolios will provide better performance due to lower market value depreciation and a more rapid reinvestment.

One Year Performance				
ICE BofAML Index	Duration	Annualized Total Return	Cumulative Value	Cumulative Delta vs 1-5 Index
1 Yr Treasury	0.98	0.92%	\$10,091,942	\$127,011
1-3 Treasury	1.87	0.08%	\$10,007,941	\$43,010
1-5 Treasury	2.65	-0.35%	\$9,964,931	\$0

Five Year Performance				
ICE BofAML Index	Duration	Annualized Total Return	Cumulative Value	Cumulative Delta vs 1-5 Index
1 Yr Treasury	0.98	0.49%	\$10,247,630	-\$163,618
1-3 Treasury	1.87	0.58%	\$10,294,618	-\$116,630
1-5 Treasury	2.65	0.81%	\$10,411,248	\$0

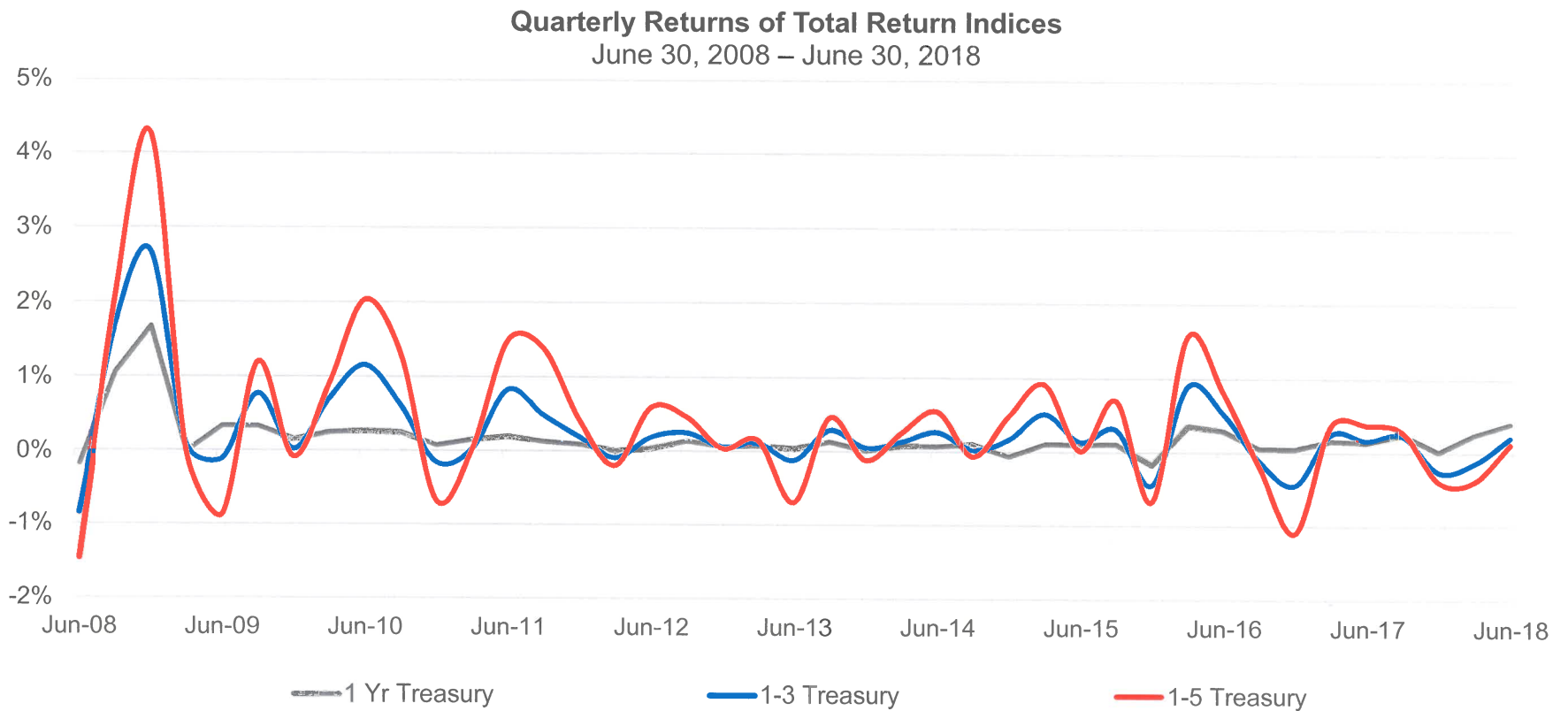
Ten Year Performance				
ICE BofAML Index	Duration	Annualized Total Return	Cumulative Value	Cumulative Delta vs 1-5 Index
1 Yr Treasury	0.98	0.77%	\$10,800,362	-\$1,136,635
1-3 Treasury	1.87	1.24%	\$11,309,573	-\$627,424
1-5 Treasury	2.65	1.79%	\$11,936,997	\$0

*Note: Fallbrook PUD's annual fee is 10 basis points (0.10%) per year with a minimum fee of \$15,000 per year. ICE BoAML Index from Bloomberg.



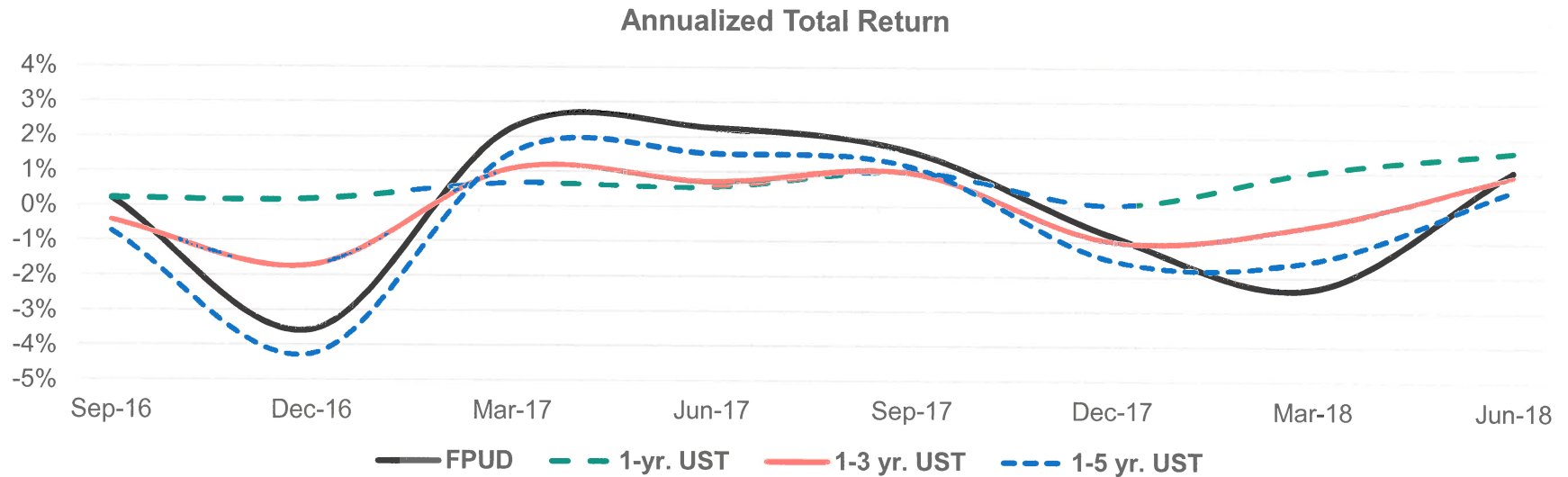
Volatility of Different Duration Benchmarks

- While longer duration portfolios provide higher average returns and accrual earnings over an entire interest rate cycle, they have greater market value fluctuations and total return volatility on a period by period basis.





Total Return Comparisons



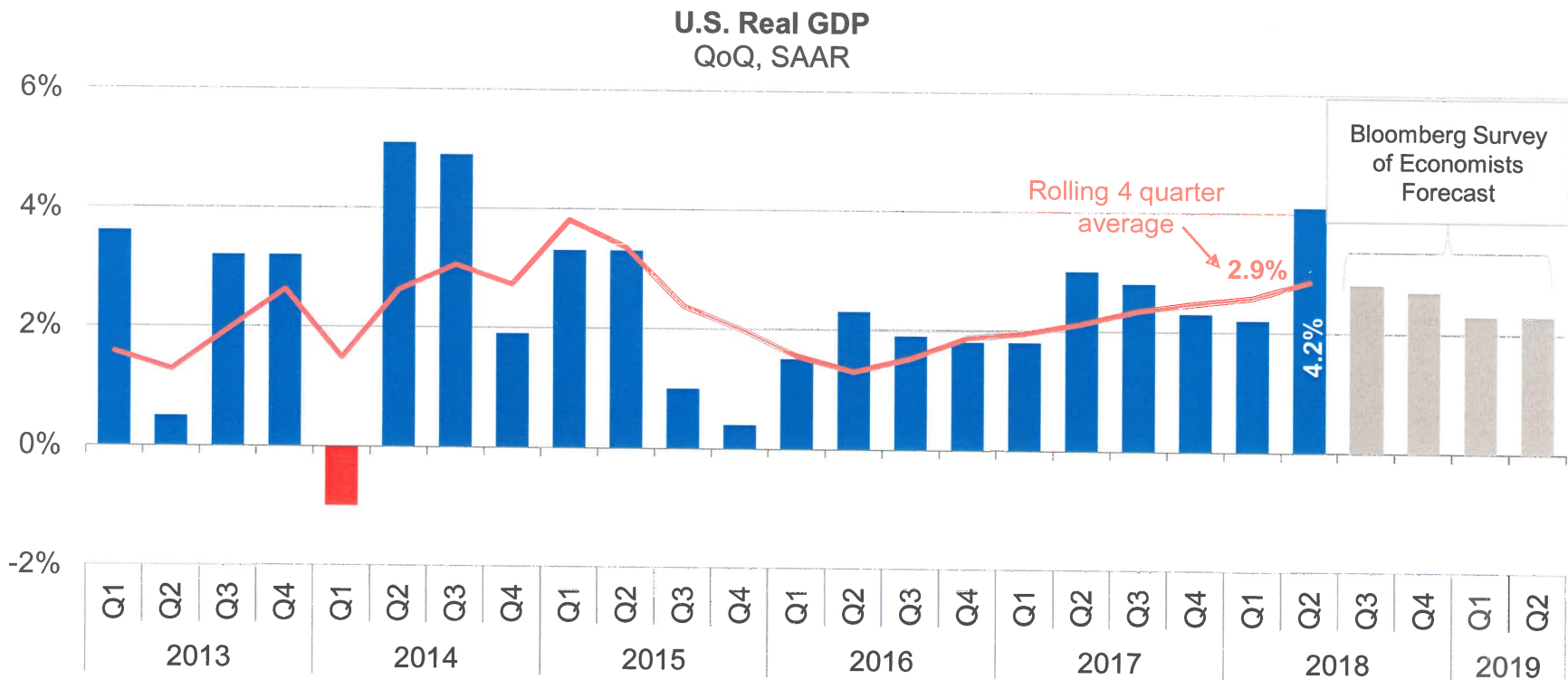
Index*/ Returns Period Ending 6/30/18	Duration	Annualized Quarter	1-Year	2-Year
FPUD Gross of Fees	2.40 yrs.	1.15%	-0.04%	0.15%
FPUD Net of Fees	2.40 yrs.	1.05%	-0.14%	0.05%
1- Year UST	0.90 yrs.	1.61%	0.92%	0.66%
1-3 Year UST	1.80 yrs.	0.89%	0.08%	-0.01%
1-5 Year UST	2.58 yrs.	0.51%	-0.35%	-0.44%
Benchmark*	2.57 yrs.*	0.62%	-0.28%	-0.29%

*Notes: Fallbrook PUD's benchmark is the ICE BoAML 1-5 year Govt/Corp, A or better, US issuers only index. The annual fee is 10 basis points (0.10%) per year with a minimum fee of \$15,000 per year. ICE BoAML Index from Bloomberg.



Economic Growth Accelerated in the Second Quarter

- ◆ U.S. economic activity expanded at a strong pace in Q2
 - The Gross domestic product (GDP) grew at an 4.2% annual rate, the fastest pace since 2014 Q3
 - A strong rebound in consumer spending, sustained business investment, a surge in export growth (in large part due to accelerated soybean exports to China ahead of new tariffs), and a sharp rise in defense spending boosted growth
- ◆ However, the surge in growth in Q2 is not expected to be sustainable, reflected in moderate future growth forecasts



Source: Bloomberg, as of Q2 2018. SAAR is seasonally adjusted annualized rate. Orange denotes rolling four-quarter averages.

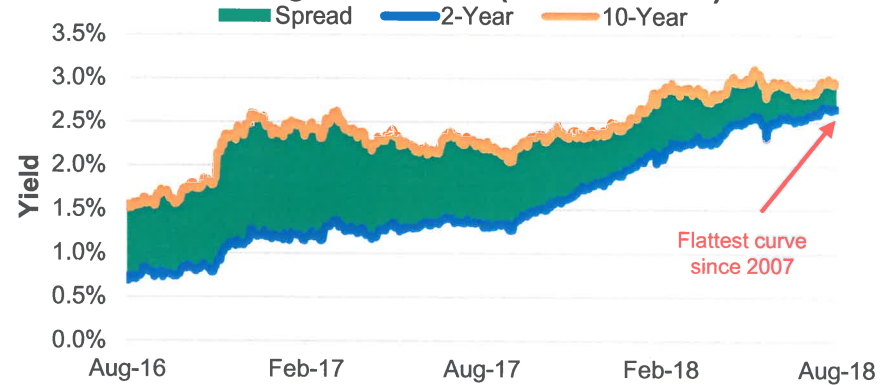


What We're Watching...

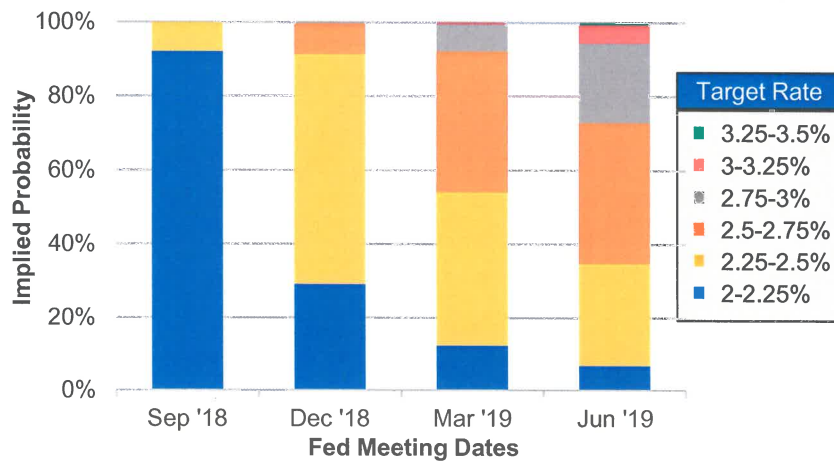
1-5 Year Corporate Spreads



Flattening Yield Curve (10-Yr vs. 2-Yr)



Market Implied Fed Rate Hike Probability



Economic Indicators are Strong

Metrics At or Near Multi-Year Bests	
U.S. GDP	Unemployment Rate
Global Growth	Job Openings
Consumer Confidence	Corporate Profits
Home Prices	Inflation

Source: Bloomberg, ICE BofAML Indices, as of 7/31/18.



2-Year U.S. Treasury Yield History 2018

- ◆ The 2-year Treasury has increased by 0.73% during 2018, but the rate of increase has decreased in recent months due to greater market uncertainty.

2-Year U.S. Treasury Yield
December 31, 2017 – August 31, 2018



Source: Bloomberg, as of 8/31/18.



Yield Environment as of July 31, 2018

Maturity	Treasury	Federal Agency	AA Corporate	A Corporate
3-Month	2.02%	1.98%	2.08%	2.14%
6-Month	2.19%	2.06%	2.31%	2.35%
1-Year	2.41%	2.31%	2.59%	2.77%
2-Year	2.67%	2.70%	2.90%	3.09%
3-Year	2.77%	2.78%	3.05%	3.28%
5-Year	2.85%	2.94%	3.29%	3.48%
10-Year	2.96%	3.28%	3.69%	3.91%

Source: Bloomberg BVAL yield curves for Treasury and Corporate. TradeWeb for Federal Agency yields. 3 and 6 month corporate yields from commercial paper; A-1+ for AA and A-1 for A. Yields are for indicative purposes only; actual yields may vary by issue.



Disclosures

This material is based on information obtained from sources generally believed to be reliable and available to the public, however PFM Asset Management LLC cannot guarantee its accuracy, completeness or suitability. This material is for general information purposes only and is not intended to provide specific advice or a specific recommendation.

It is not possible to invest directly in an index. The index returns shown throughout this material do not represent the results of actual trading of investor assets. Third-party providers maintain the indices shown and calculate the index levels and performance shown or discussed. Index returns do not reflect payment of any sales charges or fees an investor would pay to purchase the securities they represent. The imposition of these fees and charges would cause investment performance to be lower than the performance shown.

All statements as to what will or may happen under certain circumstances are based on assumptions, some but not all of which are noted in the presentation. Assumptions may or may not be proven correct as actual events occur, and results may depend on events outside of your or our control. Changes in assumptions may have a material effect on results. Past performance does not necessarily reflect and is not a guaranty of future results. The information contained in this presentation is not an offer to purchase or sell any securities.

FISCAL YEAR FINANCIAL RESULTS



Fallbrook Public Utility District

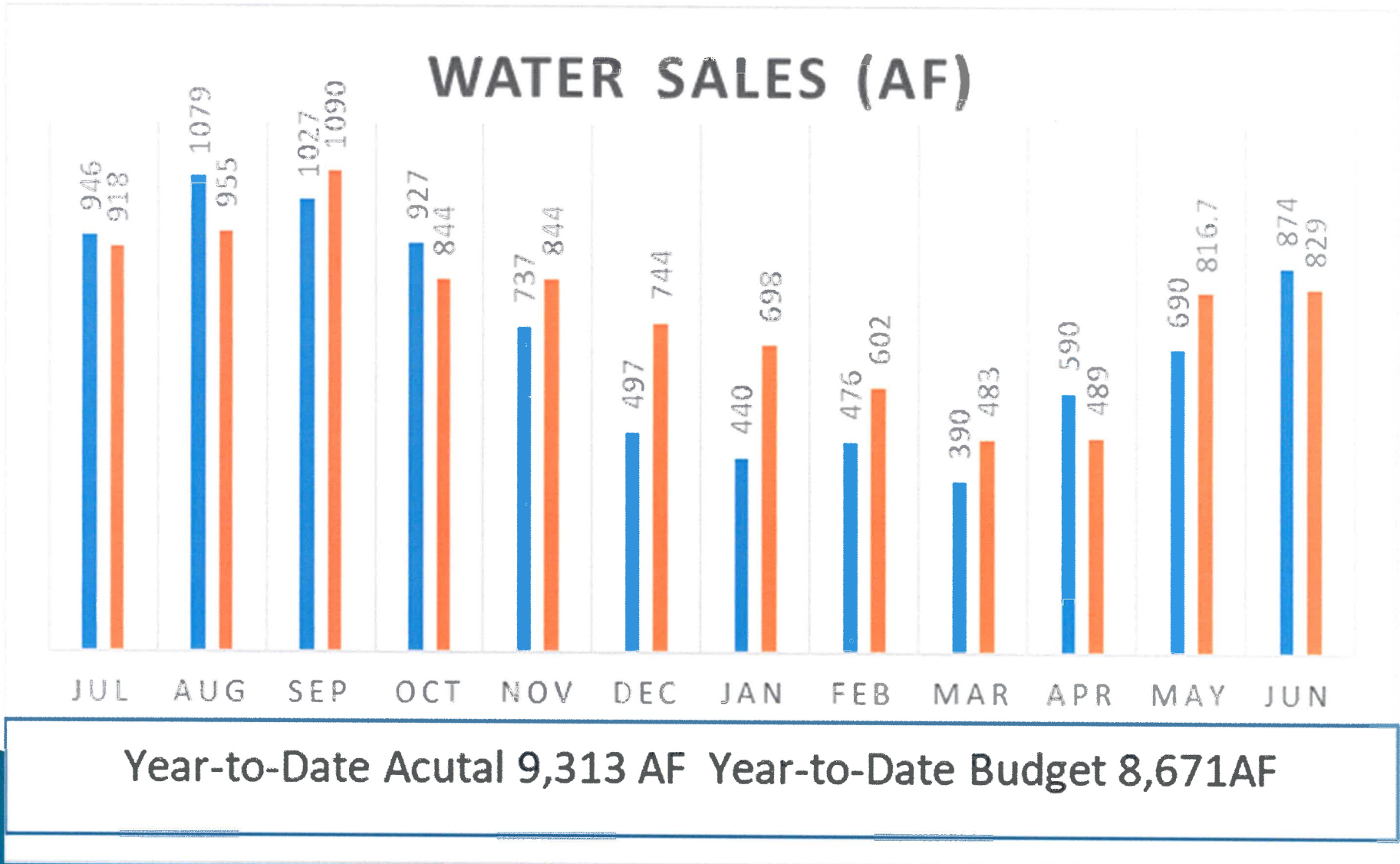
Fiscal Year 2017–2018

Financial Performance

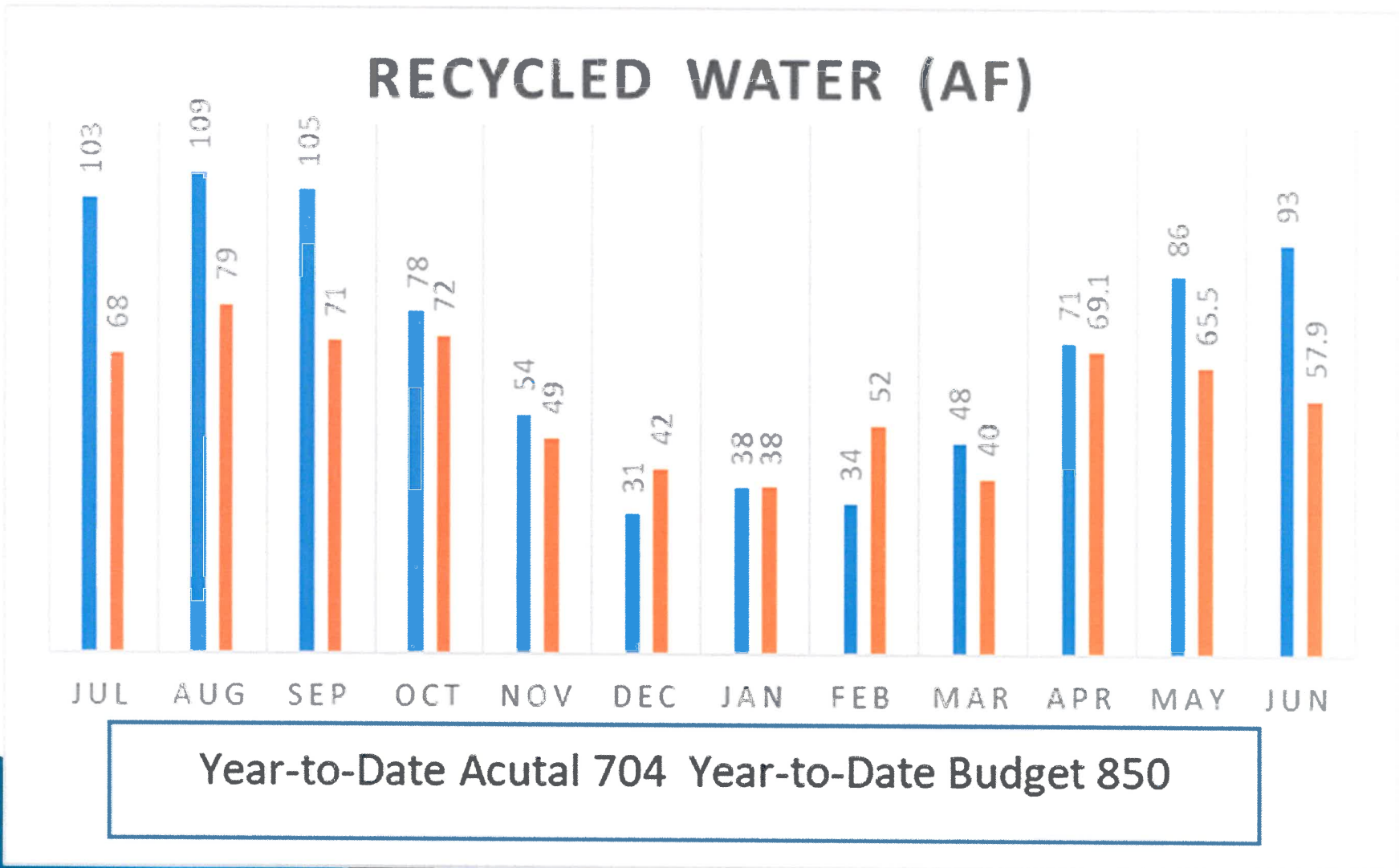
Agenda

- ▶ Provide a summary of the fiscal year's financial performance

Water Sales Levels



Recycled Water Sales



Report Layout

Prior Month's performance relative to budget projection

Annual budget, remaining budget and percent remaining

	Current Month		Year-To-Date				Annual Budget		
	Actual	Budget	Actual	Budget	Variance	%	Budget	Remaining Balance	%
Operating Revenues:								Year remaining	50.0%
Water Sales*	1,311,276	808,042	9,150,627	8,683,971	466,656	5.4%	15,388,356	6,237,729	40.5%
MWD Readiness to Serve*	42,204	33,772	253,385	202,632	50,753	25.0%	357,204	103,819	29.1%
CWA Infrastructure Access Charge	33,100	34,278	198,917	205,666	(6,749)	-3.3%	411,331	212,414	51.6%
Meter Service Charges	452,073	445,702	2,717,313	2,674,210	43,103	1.6%	5,348,419	2,631,106	49.2%
Wastewater Service Charges	440,694	482,325	2,707,622	2,893,952	(186,330)	-6.4%	5,787,904	3,080,282	53.2%
Sundry Other Revenue	78,023	25,508	220,167	153,050	67,117	43.9%	306,100	85,933	28.1%
CWA Rebates	-	13,537	76,660	81,224	(4,564)	-5.6%	162,448	85,788	52.8%
Total Operating Revenue	2,357,370	1,843,164	15,324,691	14,894,704	429,987	2.9%	27,761,762	12,437,071	44.8%

Year-to-date actual compared to budget projection

**Positive variance - Favorable/Under budget
(Negative variance) Unfavorable/Over budget**

Revenues

	Current Month		Year-To-Date			
	Actual	Budget	Actual	Budget	Variance	%
Operating Revenues:						
Water Sales*	878,921	1,693,203	15,669,032	15,388,356	280,676	1.8%
MWD Readiness to Serve*	17,327	17,463	382,315	357,204	25,111	7.0%
CWA Infrastructure Access Charge	35,178	34,278	408,065	411,331	(3,266)	-0.8%
Meter Service Charges	512,796	445,702	5,741,831	5,348,419	393,412	7.4%
Wastewater Service Charges	323,860	482,325	5,115,092	5,787,904	(672,812)	-11.6%
Sundry Other Revenue	32,575	25,508	329,873	306,100	23,773	7.8%
CWA Rebates	12,980	13,537	151,060	162,448	(11,388)	-7.0%
Total Operating Revenue	1,813,637	2,712,017	27,797,268	27,711,968	85,300	0.3%
Non Operating Revenues:						
Capital Improvement Charge	202,344	199,683	2,343,527	2,396,200	(52,673)	-2.2%
Property Taxes	29,987	33,739	1,985,752	1,916,938	68,814	3.6%
Water Standby/Availability Charge	18,154	10,123	207,628	203,000	4,628	2.3%
Water/Wastewater Capacity Charges	9,080	11,410	411,774	136,914	274,860	200.8%
Portfolio Interest	8,004	17,280	185,193	207,356	(22,163)	-10.7%
Pumping Charge	21,429	10,987	208,483	131,840	76,643	58.1%
Prop 84 & 50 Funds	-	-	67,100	-	67,100	NA
SRF Loan Proceeds	-	-	-	-	-	NA
CSI Rebate	-	-	-	-	-	NA
Facility Rents & Other Non-Operating Revenues	34,601	14,421	288,703	173,055	115,648	66.8%
Total Non Operating Revenues	323,599	297,642	5,698,160	5,165,303	532,857	10.3%
Total Revenues	2,137,236	3,009,659	33,495,428	32,877,271	618,157	1.9%

Expenses

Expenditures						
Purchased Water Expense	1,106,761	1,304,438	13,670,296	13,260,752	(409,544)	-3.1%
MWD Readiness to Serve*	29,767	29,767	357,197	357,204	8	0.0%
CWA Infrastructure Access Charge*	37,170	37,170	425,736	425,736	-	0.0%
Production-Water Quality & Treatment	47,443	106,783	1,048,478	1,388,176	339,698	24.5%
Distribution & Pumping	159,418	145,852	2,030,593	1,896,071	(134,522)	-7.1%
Customer Service	120,559	109,317	1,483,637	1,421,119	(62,518)	-4.4%
General Administration	525,284	391,861	5,394,898	5,094,194	(300,704)	-5.9%
Collection, Treatment & Disposal	241,648	210,120	3,039,789	2,731,560	(308,229)	-11.3%
Year-end Fringe Expense Adjustment	NA	NA	(876,453)	-	876,453	NA
Total Operating Expenses	2,268,049	2,335,307	26,574,171	26,574,812	640	0.0%
Debt Service Expenses						
Red Mountain SRF	-	-	395,637	395,424	(213)	-0.1%
WWTP SRF	-	-	1,845,746	1,845,746	-	0.0%
QECB Solar Debt (Net of Subsidy)	-	-	369,436	372,854	3,418	0.9%
Total Debt Service	-	-	2,610,819	2,614,024	3,205	0.1%
Total Expenses	2,268,049	2,335,307	29,184,990	29,188,835	3,845	0.0%

Capital Expenditures and Net Revenues

Capital Investment						
Construction Expenditures*	968,510	504,269	7,265,979	6,051,223	(1,214,756)	-20.1%
Net Revenue/(Loss)	(1,099,324)	170,083	(2,955,542)	(2,362,787)	(592,754)	25.1%

- ▶ Year-end net revenue lower than revised budget projections due to acceleration of two FY 2019 capital projects

Reserve Utilization

- ▶ Last Fiscal Year (2017–2018)
 - The originally adopted budget projected a \$5.2M draw on reserves
 - The updated budget used as basis for the FY 2018–2019 Budget projected a \$3.9M draw from reserves
 - The actual draw in reserves was \$2.95M
- ▶ Looking forward
 - A \$1.5M draw on reserves is budgeted for this year based upon rate and charge assumptions
 - A deposit is projected for Fiscal Year 2019–2020

Year-end Summary

- ▶ Water sales were higher than budgeted
- ▶ District revenue and expenses were in line with the Adopted Budget
- ▶ Debt service coverage for FY 2017–2018 exceeded the 1.2x requirement (2.57x)

M E M O

TO: Fiscal Policy and Insurance Committee
FROM: Jack Bebee, General Manager, JRB
DATE: September 19, 2018
SUBJECT: Approval of Mutual Services Agreement between Fallbrook Public Utility District and Valley Center Municipal Water District.

Purpose

To request Board approval of a mutual services agreement between Fallbrook Public Utility District and Valley Center Municipal Water District (VCMWD) to provide sewer vector truck services.

Summary

Part of the District's Strategic Plan is to explore regional collaboration opportunities to evaluate reducing operating costs through sharing resources without reducing the level of service. Fallbrook Public Utility, Rainbow Municipal Water District, and VCMD have had discussions regarding resources sharing. Staff has identified an initial opportunity with VCMWD. VCMWD has a relatively new sewer collections system so they are able to operate by contracting out services for limited use of a vector truck for monthly maintenance. The District has an older collection system that requires more frequent use of the vector truck to complete regular maintenance. The District does still have idle time with the District vector truck and could improve utilization of the equipment by providing services to VCMWD. VCMWD would pay for the services in accordance with Attachment A. The manpower requirements to provide these services are limited, so the District can provide the service to VCMWD without reducing the level of service for the District. In addition the payment by VCMWD for these services would help reduce the sewer operating costs for the District and benefit the District sewer ratepayers. The District and VCMWD will continue to explore additional opportunities.

Recommended Action

That the Fiscal Policy and Insurance Committee approve the attached mutual services agreement between the Fallbrook Public Utility District and the Valley Center Municipal Water District.

MUTUAL SERVICES AGREEMENT BETWEEN THE FALLBROOK PUBLIC UTILITY DISTRICT AND THE VALLEY CENTER MUNICIPAL WATER DISTRICT

This Mutual Services Agreement (this "Agreement") is made and entered into as of _____, 20____ ("Effective Date") by and between the Fallbrook Public Utility District ("FPUD"), a California public utility district, and the Valley Center Municipal Water District ("VCMWD"), a California municipal water district. FPUD and VCMWD are sometimes individually referred to as "Party" and collectively as "Parties" in this Agreement.

RECITALS

- A. FPUD and VCMWD are public agencies in the State of California and are sometimes in need of services that can be provided more efficiently or conveniently by one another.
- B. The Parties desire by this Agreement to establish the terms for each Party to provide and receive the services described herein.

AGREEMENT

NOW, THEREFORE, IT IS AGREED AS FOLLOWS:

- 1. Services. Each Party may provide the other Party with the services described in the Scope of Services attached hereto as Exhibit "A."
- 2. Compensation.
 - a. Subject to paragraph 2(b) below, a Party receiving services under this Agreement shall pay for such services in accordance with the Schedule of Charges set forth in Exhibit "B." The Parties hereby agree that, as a ministerial matter, Exhibit "B" may be updated from time to time by the General Manager of FPUD and General Manager of VCMWD to update the amounts set forth therein, upon 30 days prior written notice to the other Party, or to update Exhibit "B" to establish the charges for additional services provided pursuant to Section 3 of this Agreement.
 - b. In no event shall the total amount paid for services rendered by FPUD to VCMWD under this Agreement exceed the sum of \$ 30,000.00 (Thirty Thousand Dollars) during any fiscal year (July 1 of each year through June 30 of the following year).
 - c. In no event shall the total amount paid for services rendered by VCMWD to FPUD under this Agreement exceed the sum of \$ 30,000.00 (Thirty Thousand Dollars) during any fiscal year (July 1 of each year through June 30 of the following year).
 - d. Periodic payments shall be made within 30 days of receipt of an invoice which includes a detailed description of the work performed. Payments for work performed will be made on a monthly billing basis.
- 3. Additional Work. If the Parties wish to add additional services that may be provided under this Agreement, an amendment to this Agreement and/or the Scope of Services

shall be prepared and executed by both Parties before performance of such services. The Parties hereby agree that, as a ministerial matter, the General Manager of FPUD and General Manager of VCMWD, may from time to time as it is necessary and/or appropriate, amend Exhibit "A" to add or delete services, and to update Exhibit "B" to reflect the charges to be paid for any services added to Exhibit "A," as agreed to in writing by both Parties.

4. Maintenance of Records. Books, documents, papers, accounting records, and other evidence pertaining to costs incurred shall be maintained by each Party and made available at all reasonable times during the contract period and for four (4) years from the date of final payment under the contract for inspection by the other Party.
5. Performance of Services. A Party desiring to receive services authorized by this Agreement shall provide a written or e-mailed request for services ("Request for Services") to the designated representative of the other Party. The Request for Services shall set forth the desired date of commencement of work. If the Party receiving a Request for Services cannot perform the services, either in whole or in part, or within the time specified in the Request for Services, the other Party shall promptly notify the requesting Party in writing or by e-mail.
6. Delays in Performance. Neither Party shall be considered in default of this Agreement for delays in performance caused by circumstances beyond the reasonable control of the non-performing Party. For purposes of this Agreement, such circumstances include but are not limited to, abnormal weather conditions; floods; earthquakes; fire; epidemics; war; riots and other civil disturbances; strikes, lockouts, work slowdowns, and other labor disturbances; sabotage or judicial restraint. Should such circumstances occur, the non-performing Party shall, within a reasonable time of being prevented from performing, give written notice to the other Party describing the circumstances preventing continued performance and the efforts being made to resume performance of this Agreement.
7. Compliance with Law. Each Party shall comply with all applicable laws, ordinances, codes and regulations of the federal, state and local government, including Cal/OSHA requirements. If applicable, each Party shall assist the other Party, as requested, in obtaining and maintaining all permits required by federal, state and local regulatory agencies related to the services. If applicable, the Party performing the services is responsible for all costs of clean up and/ or removal of hazardous and toxic substances spilled as a result of its services or operations performed under this Agreement.
8. Standard of Care. The services will be performed in accordance with generally accepted professional practices and principles and in a manner consistent with the level of care and skill ordinarily exercised by members of the profession currently practicing under similar conditions.
9. Assignment and Subcontract. Neither Party shall assign, sublet, subcontract, or transfer this Agreement or any rights under or interest in this Agreement without the written consent of the other Party, which may be withheld for any reason. Any attempt to so assign, subcontract, or transfer without such consent shall be void and without legal effect and shall constitute grounds for termination.
10. Independent Contractor/ Status of Employees.

- a. Independent Contractor. The Party performing the services is retained as an independent contractor and is not an employee of the other Party. No employee or agent of a Party shall become an employee of the other Party. The Party performing the services shall be and remain responsible for all payroll, compensation, employee benefits, and employment administration of any of its employees which the performing Party directs to provide the services that the Party agrees to provide under this Agreement. In furtherance of the foregoing, the Party performing the services shall:
- i. Properly secure and maintain workers' compensation coverage for any of its employees performing services pursuant to this Agreement at the exclusive direction of the performing Party;
 - ii. Be fully responsible for payment of all payroll, payroll taxes, collection of taxes, unemployment insurance, and other administrative functions customarily performed by an employer and required under applicable federal, state, or local laws; and
 - iii. Without regard to payment by the Party receiving the services, assume such responsibilities as are required by applicable federal, state, and local wage and hour laws for payment of wages to any of its employees performing the services at the exclusive direction of the performing Party.
- b. Status of Employees. When a service is requested of a performing Party, such Party shall direct appropriate employee(s) to perform the requested service as part of the employee's regular duties for the performing Party. The Parties acknowledge and agree that at all times the performing Party's employees shall remain under the exclusive control of the board of directors of the performing Party or a supervisor that reports directly to a management employee subject to the exclusive control of the performing Party's board of directors such as the General Manager. The receiving Party shall not have any right to control the manner or means in which the Performing Party's employees perform services under this Agreement. Rather, the Performing Party shall have the sole and exclusive authority to do the following:
- i. Make decisions regarding the hiring, retention, discipline or termination of the Performing Party's employees. The receiving Party will have no discretion over those functions.
 - ii. Determine the wages to be paid to Performing Party's employees, including any pay increases. These amounts shall be determined in accordance with Performing Party's published publicly available pay schedule and shall be subject to changes thereto approved by the Performing Party's board of directors.
 - iii. Set the benefits of Performing Party's employees, including health and welfare benefits, retirement benefits, and leave accruals in accordance with Performing Party's policies.
 - iv. Evaluate the performance of Performing Party's employees through performance evaluations performed by a management level employee

that reports directly to the Performing Party's General Manager or the Performing Party's board of directors.

- v. Perform all other functions related to the service, compensation, or benefits of the Performing Party's employees assigned to perform services under this Agreement.
11. Insurance. During the performance of any services under this Agreement, the Parties shall maintain in full force and effect insurance policies and/or equivalent risk management coverage in the manner and to the extent that each Party insures and/or self-insures itself for similar risks with respect to that Party's operations, equipment, and property. The manner in which such insurance and/or self-insurance is provided and the extent of such insurance and/or self-insurance shall be set forth in a Certificate of Insurance and/or Certificate of Self-Insurance, delivered to the other Party and signed by an authorized representative of the applicable Party, which full describes the insurance and/or self-insurance program and how the insurance/program covers the risks set forth in this Section 11. Insurance provided by a joint powers agency insurance pool shall be considered self-insurance for the purposes of this paragraph. Coverage under such insurance and/or self-insurance shall provide coverage for the following:
- a. Commercial General Liability. Commercial general liability insurance or equivalent risk management coverage covering bodily injury, property damage, personal/advertising injury, premises/operations liability, products/completed operations liability, and contractual liability, in an amount no less than \$1,000,000 per occurrence / \$2,000,000 aggregate. The policy shall give the other Party, its officials, officers, employees, agents and designated volunteers additional insured status, or endorsements providing the same coverage.
 - b. Automobile Liability. Automobile liability insurance or equivalent risk management coverage in an amount no less than \$1,000,000 per occurrence for bodily injury and property damage. Coverage shall include owned, non-owned and hired vehicles. The policy shall give the other Party, its officials, officers, employees, agents and designated volunteers additional insured status, or endorsements providing the same coverage.
 - c. Workers' Compensation. Workers' compensation insurance or equivalent risk management coverage as required by law. Each Party certifies that it is aware of the provisions of Section 3700 of the California Labor Code which requires every employer to be insured against liability for workers' compensation or to undertake self-insurance in accordance with the provisions of that code, and each Party will comply with such provisions before commencing work under this Agreement.
12. Indemnification. Each Party (the "Indemnifying Party") shall indemnify, defend (with counsel of the Indemnified Party's choosing), and hold the other Party (the "Indemnified Party"), its officials, officers, employees, volunteers, and agents free and harmless from any and all claims, demands, causes of action, costs, expenses, liability, loss, damage or injury of any kind, in law or equity, to property or persons, including wrongful death, in any manner arising out of, pertaining to, or incident to any acts, errors or omissions, or willful misconduct of the Indemnifying Party, its officials, officers, employees, contractors,

consultants or agents in connection with the Indemnifying Party's performance of the services under this Agreement, except to the extent caused by the negligence or willful misconduct of the Indemnified Party.

13. Laws and Venue. This Agreement shall be interpreted in accordance with the laws of the State of California. If any action is brought to interpret or enforce any term of this Agreement, the action shall be brought in a state or federal court situated in the County of San Diego, State of California.
14. Term; Termination or Abandonment.
 - a. This Agreement shall begin on the Effective Date and shall continue until termination of this Agreement.
 - b. Either Party may terminate this Agreement with or without cause upon thirty (30) calendar days' written notice to the other Party. The Party receiving services shall pay the other Party the reasonable value of services rendered for any work completed prior to termination.
15. Notice. Any notice or instrument required to be given or delivered by this Agreement may be given or delivered by depositing the same in any United States Post Office, certified mail, return receipt requested, postage prepaid, addressed to:

FPUD:

Fallbrook Public Utility District
990 E Mission Rd,
Fallbrook, CA 92028
Attn: General Manager

VCMWD:

Valley Center Municipal Water District
29300 Valley Center Rd
Valley Center, CA 92082
Attn: General Manager

and shall be effective upon receipt thereof.

16. Third Party Rights. Nothing in this Agreement shall be construed to give any rights or benefits to anyone other than the Parties.
17. Entire Agreement; Amendment. This Agreement, with its exhibits, represents the entire understanding of the Parties as to those matters contained herein, and supersedes and cancels any prior or contemporaneous oral or written understanding, promises or representations with respect to those matters covered hereunder. Each Party acknowledges that no representations, inducements, promises or agreements have been made by any person that are not incorporated herein, and that any other agreements shall be void. This Agreement may not be modified or altered except in writing signed by both Parties hereto. This is an integrated Agreement.
18. Severability. The unenforceability, invalidity or illegality of any provision(s) of this Agreement shall not render the provisions unenforceable, invalid or illegal.
19. Successors and Assigns. This Agreement shall be binding upon and shall inure to the benefit of the successors in interest, executors, administrators and assigns of each

Party. However, neither Party shall assign or transfer by operation of law or otherwise any or all of its rights, burdens, duties or obligations without the prior written consent of the other Party. Any attempted assignment without such consent shall be invalid and void.

- 20. Non-Waiver. None of the provisions of this Agreement shall be considered waived by either Party, unless such waiver is specifically specified in writing.
- 21. Time of Essence. Time is of the essence for each and every provision of this Agreement.
- 22. Counterparts. This Agreement may be executed in the original or in any number of counterparts, each of which shall be deemed to be an original and all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the Parties have executed this Mutual Services Agreement as of the date first written above.

FALLBROOK PUBLIC UTILITY DISTRICT

**VALLEY CENTER MUNICIPAL
WATER DISTRICT**

By: _____

By: _____

Its: _____

Its: _____

Printed Name: _____

Printed Name: _____

EXHIBIT A

Scope of Services

FPUD will provide the following services to VCMWD under this Agreement:

- Vector truck services, including, but not limited to, grit removal and lift station maintenance

VCMWD will provide the following services to FPUD under this Agreement:

- [Reserved]

EXHIBIT B

Schedule of Charges/Payments

The Party performing services will invoice the other Party on a monthly basis. The Party performing services will include with each invoice a detailed progress report that indicates the amount of time and cost for each task. This is a time-and-materials contract.

The Party performing services may update the amounts set forth below upon 30 days prior written notice to the other Party.

1. FPUD Vector Truck Services:
 - Daily Rate: \$1,028
 - Overnight Rate (Grit Removal): \$1,126
 - Lift Station Maintenance (Partial Day): \$573

Attachment A - Costs for Vactor truck Support Services

Daily Rate

Position/Equipment	Number	Hourly Salary/Rate	Benefits and Overhead	Total Hourly Cost
Utility Worker II	1	\$ 35	\$ 17.50	\$ 53
Vactor Truck	1	\$ 62	\$ -	\$ 62
Total Hours				9
Total Truck and Worker (\$/Day)				\$ 1,028

Lift Station Cleaning (4 hours plus 1 hrs drive time)


Position/Equipment	Number	Hourly Salary/Rate	Benefits and Overhead	Total Hourly Cost
Utility Worker II	1	\$ 35	\$ 17.50	\$ 53
Vactor Truck	1	\$ 62	\$ -	\$ 62
Total Hours				5
Total Truck and Worker (\$/Cleaning)				\$ 573

Plant Grit Removal (7 hours plus 1 hrs drive time done overnight plus 4 hours rest leave)

Position/Equipment	Number	Hourly Salary/Rate	Benefits and Overhead	Total Hourly Cost
Utility Worker II	1	\$ 35	\$ 17.50	\$ 53
Vactor Truck	1	\$ 62	\$ -	\$ 62
Utility Work II (Rest Leave)	1	\$ 35	\$ 17.5	\$ 53
Total Hours				8*
Total Truck and Worker (\$/Cleaning)				\$ 1,126

*Plus 4 Hours Rest Leave

M E M O

TO: Fiscal Policy & Insurance Committee
FROM: David Shank, Assistant General Manager/CFO 
DATE: September 19, 2018
SUBJECT: Administrative Services Projects and Schedules

Purpose

Review the various planned Administrative Services projects and their schedules.

Summary

A number of projects have been identified by the Committee and the Board. Attachment A shows all of the projects. This memo provides a summary of the existing and new finance projects, the completion schedule and the project status. The projects have been broken into three focus areas. Each focus area and the related projects are listed below. All of the projects are on schedule. Attachment A provide a timeline for all the projects.

Existing Projects:

- **Accounting system review/optimization** – This major effort is focused on enhancing fiscal controls and transparency as well as streamlining redundant account processes. Change imitated for the current fiscal year include consolidation of funds, creating over 1,600 labor and AP accounts to track costs, changing benefit and other burden cost accounting structures to reflect actual costs, and creating a pooled cash structure that allows the tracking of funds by service. It is important to note that these changes required many different internal processes to be significantly modified. While much progress has been made, there are some issues that need to be resolved and new issues that have arose as staff have dug deeper into the system. As result of these new issues and staffing changes his effort is going to continue through June 2019 and likely require the full budgeted amount this fiscal year. As a result the Phase II schedule has been moved forward. Phase II includes:
 - Asset Register – The asset register or list of all the District’s assets needs to be reviewed. While this information was imported into Springbrook from the legacy system, the quality of the data is limited. This necessitates a full review of the asset records and so that the District’s balance sheet can be prepared.
 - Payroll Structure – Staff is evaluating if the current configuration of payroll is the most efficient and effective. The system is currently set up to support Workorders. This limits the ability for benefit and other employee costs to be captured in the system.
 - Project Management – The current system set up utilizes both Workorders and Project Management. This structure is largely redundant but there can be discrepancies between the two systems numbers making it difficult to determine which is correct.

- **Compensated Absences** – This is an area that needs to be modified from the current set up to ensure costs and accruals are properly managed. This is more of a clean-up item that needs to be addressed before the next budget is developed.
- **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 would have the CAFR approved by the Board in December, which is a very common schedule. Thus far the audit has progressed well. They have done an excellent job digging in and understanding the District. I look forward to their constructive suggestions for improving the District's financial management. Draft financial statements are expected to be ready for Fiscal Policy & Insurances review in November and to the Board in December.
- **CY 2019 Rates and Charges** – The rate and charge assumptions must be updated with CY 2018 data and CY 2019 projections to support the determination of the cost of service projections for the new rate year. The financial model will need to be updated for FY 2018 financial results as well. Preliminary rate discussions will begin in October/November. In addition, recommendations for the use of funds associated with the sale of the Santa Margarita property will be included.

New Projects:

- **Phone System Upgrade** – The current phone system is out of date and ineffective. Staff are evaluating phone systems that will allow better customer service and allow customer service staffing to be better optimized. The cost of a new phone system is included in the current budget and expected to be a slight increase over the current cost. However, staffing optimization is expected to offset savings by reducing customer service hours.
- **Commercial Bank and Billing Services Review** – The current banking relationship was established a long time ago. A review of the banking services and costs is underway. The review will look at if there are cost savings opportunities on banking fees as well as savings related to bill processing. In addition, staff are making a concerted effort to move customers to online bill pay, evaluating the cost of processing payment at the counter vs the fee to allow credit card use and initiating lockbox services to outsource bill payment processing.

Recommended Action

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

ATTACHMENT "A"

	FY 2017-18											FY 2018-19									
	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				COMPLETED	Phase II: Implementation												
Payroll Process Improvements				RFP	Award/Implement		COMPLETED														
Auditor RFP/Selection				RFP	Award	COMPLETED															
Audit FY 17-18	Audit Schedule (Targeting December for Board Approval)																				
Banking & Billing Review										Evaluation of Service Options				RFP	Award/Implement						
Budget																					
FY 2018-2019 Budget			Development			FP&I Draft	Meetings/Adopt	COMPLETED													
Rate & Charge Adjustment									RTS	COMPLETED											
CY 2019 Rates and Charges												Hearings/Adoption									
Finalize working rate model				Final model/Budget support			COMPLETED														
Reporting																					
Budget Status			Develop/Final		COMPLETED																
Treasurers Report			Develop/Final		COMPLETED																
State Controller Report			Due	COMPLETED																	
Quarterly Portfolio Report									Due				Due				Due			Due	