



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

AGENDA

TUESDAY, OCTOBER 16, 2018
2:00 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. INFORMATION -----(ITEMS A–D)

A. PARS INVESTMENT PERFORMANCE REPORT

B. QUARTERLY PFM INVESTMENT PORTFOLIO REVIEW

C. FISCAL YEAR 2017-2018 YEAR-END BUDGET STATUS REPORT

D. REVIEW OF BILLABLE WASTEWATER FLOW CALCULATION
METHODOLOGY

III. ACTION / DISCUSSION -----(ITEMS E–F)

E. USE OF PROCEEDS FROM THE SALE OF THE SANTA MARGARITA
PROPERTY

F. ACCOUNTING SYSTEM REVIEW/OPTIMIZATION UPDATE


IV. ADJOURNMENT OF MEETING

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.

OCT 12 2018
Dated / Fallbrook, CA


Acting Secretary, Board of Directors

PARS Investment Performance Report



FALLBROOK PUBLIC UTILITY DISTRICT

OPEB Pre-Funding Trust Program &
Pension Rate Stabilization Program (PRSP) Client Review
October 16, 2018

PUBLIC
AGENCY
RETIREMENT
SERVICES

PARS

TRUSTED SOLUTIONS. LASTING RESULTS.

CONTACTS



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Executive Vice President



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PARS TRUST TEAM



Trust Administrator & Consultant	Trustee	Investment Manager
<ul style="list-style-type: none"> Recordkeeping/account valuations Monitors contributions Processes distributions Handles all agency/participant inquiries Monitor plan compliance 	<ul style="list-style-type: none"> Safeguards plan assets Oversight protection Plan fiduciary Custodian of assets 	<ul style="list-style-type: none"> An investment sub-advisor to U.S. Bank Manages plan investments according to established policy Uses open architecture Active and passive options
Corporate Experience		
34 years (1984 – 2018)	155 years (1863 – 2018)	99 years (1919 – 2018)
Plans Under Administration		
1,600+ plans, 850+ public agencies, 400,000+ participants		
Dollars under Administration		
Over \$3.2 billion	Over \$4.0 trillion	Over \$14.1 billion under management



SUMMARY OF AGENCY'S OPEB PLAN

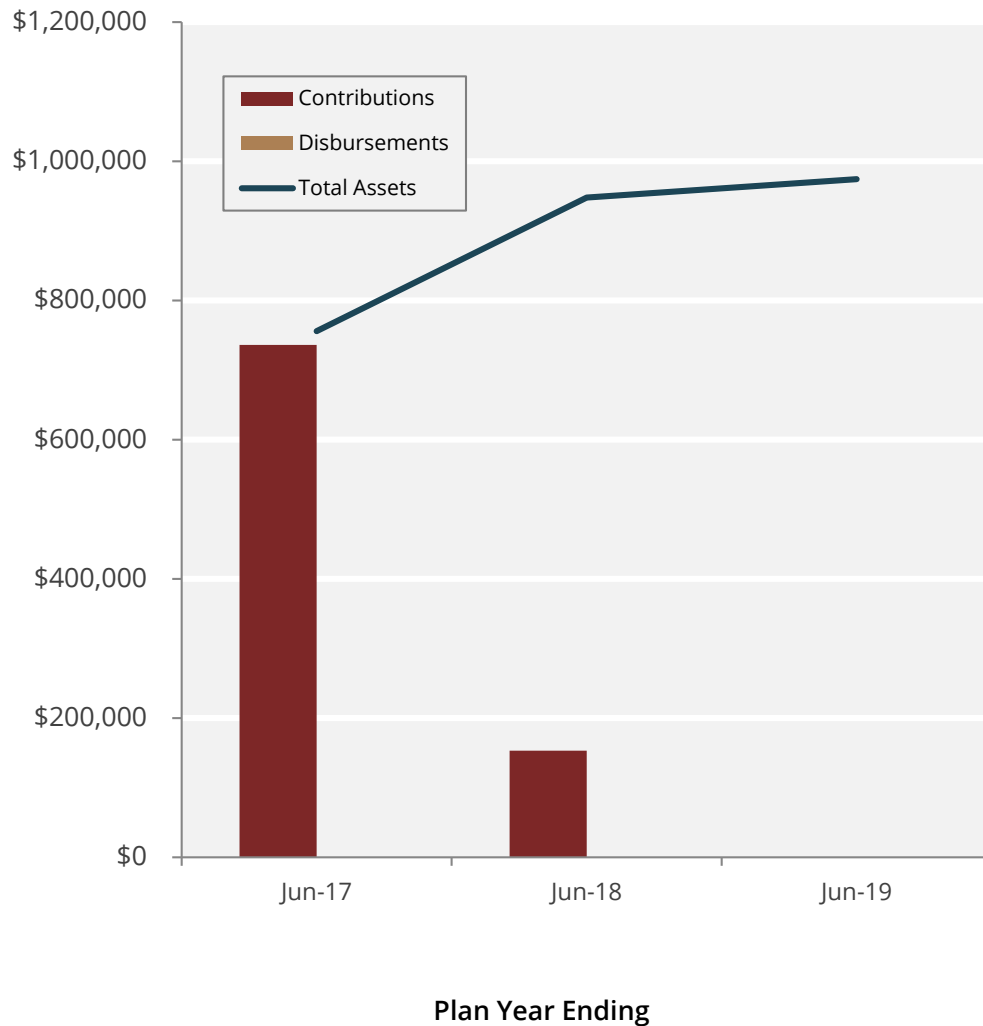
Plan Type:	IRC Section 115 Irrevocable Exclusive Benefit Trust
Trustee Approach:	Discretionary
Plan Effective Date:	September 26, 2016
Plan Administrators:	General Manager
Current Investment Strategy:	Moderate Index (Passive) Plus; Pooled Account

AS OF AUGUST 31, 2018:

Initial Contribution:	February 2017: \$736,000
Additional Contributions:	\$153,000
Total Contributions:	\$889,000
Disbursements:	\$0.00
Net Investment Earnings:	\$85,164
Account Balance:	\$974,164

SUMMARY OF AGENCY'S OPEB PLAN

CONTRIBUTIONS, DISBURSEMENTS, AND TOTAL ASSETS AS OF AUGUST 31, 2018:



Year	Contributions	Disbursements	Total Assets
Jun-17*	\$736,000	\$0	\$755,952
Jun-18	\$153,000	\$0	\$947,784
Jun-19**	\$0	\$0	\$974,164

*Plan Year Ending June 2017 is based on 5 months of activity.
 **Plan Year Ending June 2019 is based on 2 months of activity.

OPEB ACTUARIAL RESULTS

- We have received the actuarial report by Demsey Filliger & Associates dated September 22, 2016 with a valuation date as of July 1, 2016. In the table below, we have summarized the results.

Demographic Study Valuation Date: July 1, 2016	
Actives	69
Retirees	4
Total	73
Average Active Age	44.25
Average Active Agency Service	9.99

OPEB ACTUARIAL RESULTS

	July 1, 2016 Valuation 4.00% Discount Rate (Pre-Funding)
Actuarial Accrued Liability (AAL)	\$849,667
Actuarial Value of Assets	\$0
Unfunded Actuarial Accrued Liability (UAAL)	\$849,667
Annual Required Contribution (ARC)	\$113,475
Annual Benefit Payments (Pay-as-you-Go) for FY 2018-19	\$22,837

Rule of thumb: For every one percent increase in the discount rate, the unfunded liability is lowered by 10-12%.

SUMMARY OF AGENCY'S PENSION PLAN

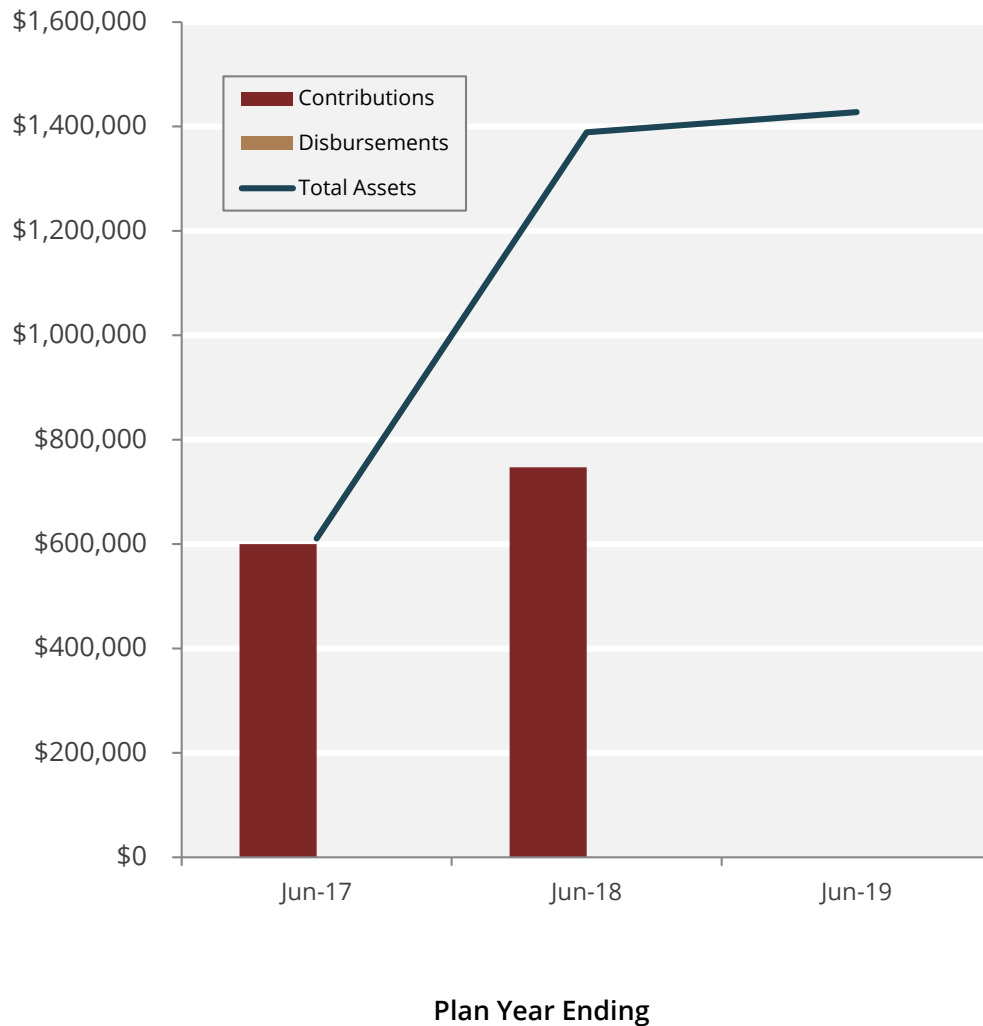
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Trustee Approach:	Discretionary
Plan Effective Date:	September 26, 2016
Plan Administrators:	General Manager
Current Investment Strategy:	Moderate Index (Passive) Plus; Pooled Account

AS OF AUGUST 31, 2018:

Initial Contribution:	February 2017: \$100,000
Additional Contributions:	\$1,247,000
Total Contributions:	\$1,347,000
Disbursements:	\$0
Net Investment Earnings:	\$80,400
Account Balance:	\$1,427,000

SUMMARY OF AGENCY'S PENSION PLAN

CONTRIBUTIONS, DISBURSEMENTS, AND TOTAL ASSETS AS OF AUGUST 31, 2018:



Year	Contributions	Disbursements	Total Assets
Jun-17*	\$600,000	\$0	\$610,483
Jun-18	\$747,000	\$0	\$1,388,748
Jun-19**	\$0	\$0	\$1,427,400

*Plan Year Ending June 2017 is based on 5 months of activity.
 **Plan Year Ending June 2019 is based on 2 months of activity.



PENSION FUNDING STATUS

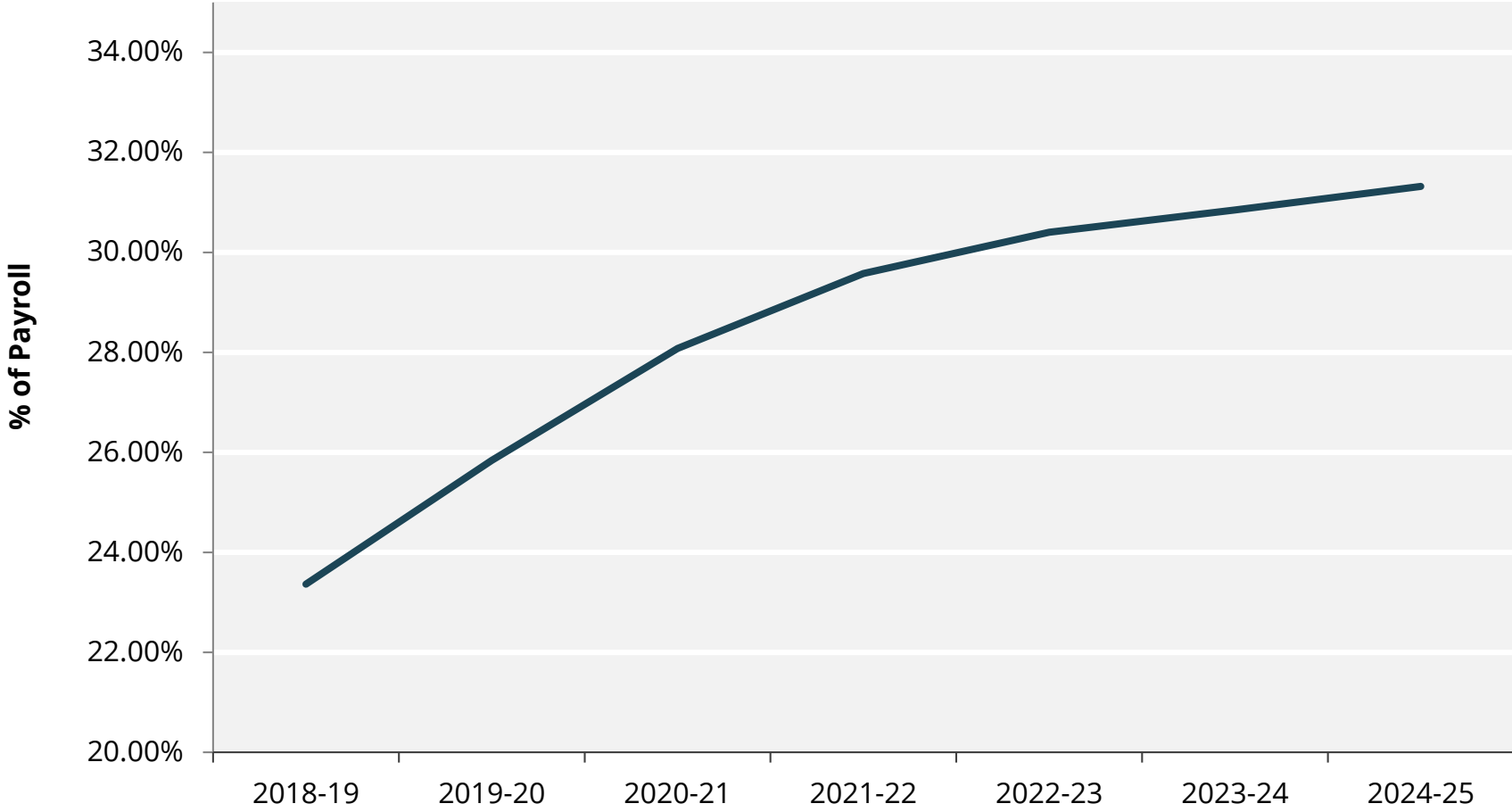
As of June 30, 2017, Fallbrook Public Utility District’s CalPERS pension plan is funded as follows*:

Actuarial Liability	\$46.8 M
Assets	\$34.6 M
Unfunded Liability	\$12.2 M
Funded Ratio	73.9%
Employer Contribution Amount (FY 18-19)	\$1.3 M
Projected Employer Contribution Amount (FY 24-25)	\$2.1 M (58.9% ↑)

* Data from Agency’s 2017-18 CalPERS actuarial valuation

PROJECTED EMPLOYER CONTRIBUTIONS (MISC.)

Projected misc. contributions increase from \$1.3M to \$2.1M* (58.9% ↑)



— Total Contributions (%)

* Data from Agency's 2017-18 CalPERS actuarial valuation

PARS: Fallbrook Public Utility District

OPEB – October 2018

Presented by:

Christiane Tsuda – Senior Portfolio Manager

DISCUSSION HIGHLIGHTS – Fallbrook Public Utility District OPEB

Asset Allocation (as of 9/30/2018)

- Stocks 50.72% (40% - 60%); Bonds 46.21% (40% - 60%); Cash 3.07% (0% - 20%)
- Large Cap 26.82%, Mid Cap 3.98%, Small Cap 8.59%, International 9.97%, REIT 1.35%
- *Moderate*

Performance (as of 9/30/18) Gross of investment fees, net of fund level fees

- 3 Months: 2.47%
- 1 Year: 5.58%
- Inception to Date: 7.68% (Feb. 2017)
- Bonds – impacted by rising interest rates
- Stocks – increased volatility.

Outlook

- US Economy – *Consumer, employment, wages, inflation, housing,*
- Global Economies – *Europe (Italy), Emerging Markets (BAT)*
- Federal Reserve – *Rate hikes, balance sheet*
- 10-year yield – *3.00% - 3.25% (currently 3.18%)*
- Corporate earnings – *Q3 expected strong, outlook?*
- Geopolitical pressures – *Russia investigation, midterm elections*

Selected Period Performance
PARS/115P MODERATE INDEX PLUS

Account xxxxxx0107

Period Ending: 9/30/2018

Sector	1 Month	3 Months	Year to Date (9 Months)	1 Year	Inception to Date 02/01/2017
Cash Equivalents	.15	.45	1.19	1.44	1.14
<i>Lipper Money Market Funds Index</i>	.14	.44	1.11	1.33	1.04
Total Fixed Income	-.53	.03	-1.42	-1.08	.91
<i>BBG Barclays US Aggregate Bd Index (U</i>	-.64	.02	-1.60	-1.22	1.01
Total Equities	-.21	4.94	5.77	11.49	14.56
Large Cap Funds	.54	7.54	8.96	16.36	17.15
<i>S&P 500 Composite Index</i>	.57	7.71	10.56	17.91	18.23
Mid Cap Funds	-.64	4.97	6.61	13.04	13.22
<i>Russell Midcap Index</i>	-.64	5.00	7.46	13.98	13.97
Small Cap Funds	-2.38	3.37	10.52	14.08	15.10
<i>Russell 2000 Index (USD)</i>	-2.41	3.58	11.51	15.24	15.61
REIT Funds	-2.68	.43	.83	2.28	3.70
<i>Wilshire REIT Index</i>	-2.75	.72	2.25	3.99	4.30
International Equities	.18	.40	-4.41	-.30	9.64
<i>MSCI EAFE Index (Net)</i>	.87	1.35	-1.43	2.74	11.43
<i>MSCI EM Free Index (Net USD)</i>	-.53	-1.09	-7.68	-.81	11.65
Total Managed Portfolio	-.36	2.47	2.64	5.58	7.68

Returns are gross of account level investment advisory fees and net of any fees, including fees to manage mutual fund or exchange traded fund holdings. Returns for periods over one year are annualized. The information presented has been obtained from sources believed to be accurate and reliable. Past performance is not indicative of future returns. Securities are not FDIC insured, have no bank guarantee, and may lose value.

ASSET ALLOCATION – Fallbrook Public Utility District OPEB

As of September 30, 2018

Current Asset Allocation		Investment Vehicle		
Equity		Range: 40%-60%		50.72%
Large Cap Core	IVV	iShares Tr Core S&P 500 ETF		14.97%
Large Cap Value	IVE	iShares S&P 500 Value ETF		6.70%
Large Cap Growth	IVW	iShares S&P 500 Growth ETF		5.16%
Mid Cap Core	IWR	iShares Russell Mid Cap ETF		3.98%
Small Cap Value	IWN	iShares Russell 2000 Value ETF		4.83%
Small Cap Growth	IWO	iShares Russell 2000 Growth ETF		3.76%
International Core	EFA	iShares MSCI EAFE ETF		6.67%
Emerging Markets	VWO	Vanguard FTSE Emerging Markets ETF		3.30%
REIT	VNQ	Vanguard REIT ETF		1.35%
Fixed Income		Range: 40%-60%		46.21%
Short-Term	VFSUX	Vanguard Short-Term Corp Adm Fund		7.84%
Intermediate-Term	AGG	iShares US Core Aggregate Bond ETF		38.37%
Cash		Range: 0%-20%		3.07%
	FGZXX	First American Prime Obligations Fund		3.07%
TOTAL				100.00%

Fallbrook Public Utility District For Period Ending September 30, 2018

LARGE CAP EQUITY FUNDS								
Fund Name	Inception	1-Month Return	3-Month Return	Year-to-Date	1-Year Return	3-Year Return	5-Year Return	10-Year Return
iShares S&P 500 Growth ETF		0.74	9.22	17.05	24.95	19.66	16.35	13.84
iShares Core S&P 500 ETF		0.56	7.70	10.53	17.87	17.26	13.89	11.91
iShares S&P 500 Value ETF		0.36	5.82	3.40	9.89	13.95	10.70	9.46
MID CAP EQUITY FUNDS								
iShares Russell Mid-Cap ETF	(3/16)	-0.65	4.95	7.33	13.79	14.32	11.46	12.14
SMALL CAP EQUITY FUNDS								
iShares Russell 2000 Value ETF		-2.49	1.58	7.06	9.20	16.04	9.82	9.43
iShares Russell 2000 Growth ETF		-2.34	5.54	15.75	21.06	18.09	12.26	12.75
INTERNATIONAL EQUITY FUNDS								
iShares MSCI EAFE ETF		0.87	1.32	-1.42	2.69	9.17	4.33	5.30
Vanguard FTSE Emerging Markets ETF	(3/11)	-1.30	-1.74	-8.83	-3.10	10.09	2.98	4.71
REAL ESTATE FUNDS								
Vanguard Real Estate ETF	(10/15)	-2.60	0.55	0.55	1.94	7.02	8.68	7.50
BOND FUNDS								
iShares Core US Aggregate Bond ETF		-0.66	0.01	-1.64	-1.29	1.25	2.12	3.66
Vanguard Short-Term Investment-Grade Adm		-0.05	0.61	0.30	0.25	1.65	1.77	3.23
BBgBarc US Agg Bond TR USD		-0.64	0.02	-1.60	-1.22	1.31	2.16	3.77
Invesco Senior Loan ETF	(2/17)	0.73	2.01	3.50	4.18	4.28	2.80	--

Source: SEI Investments, Morningstar Investments

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PARS: Fallbrook Public Utility District

Pension – October 2018

Presented by:

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Source: SEI Investments, Morningstar Investments

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Quarterly PFM Investment Portfolio Review



Fallbrook Public Utility District

Quarter Ending September 30, 2018

PFM Asset
Management LLC

601 S. Figueroa St.
Suite 4500
Los Angeles, CA 90017
213.489.4075

pfm.com



Portfolio Sector Allocation and Compliance

- The portfolios are in compliance with the District's Investment Policy and the California Government Code.

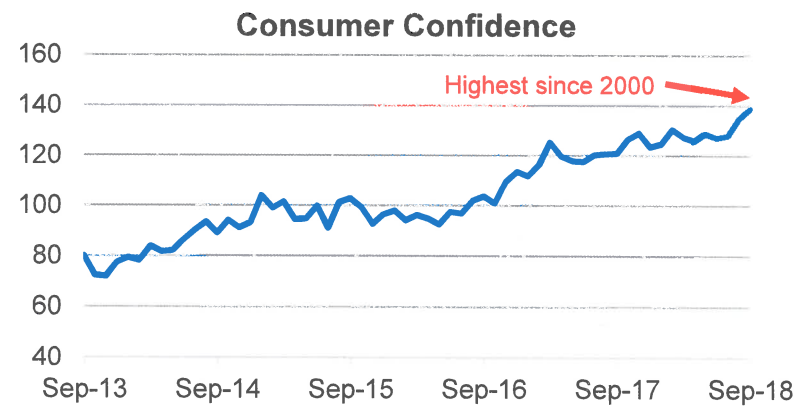
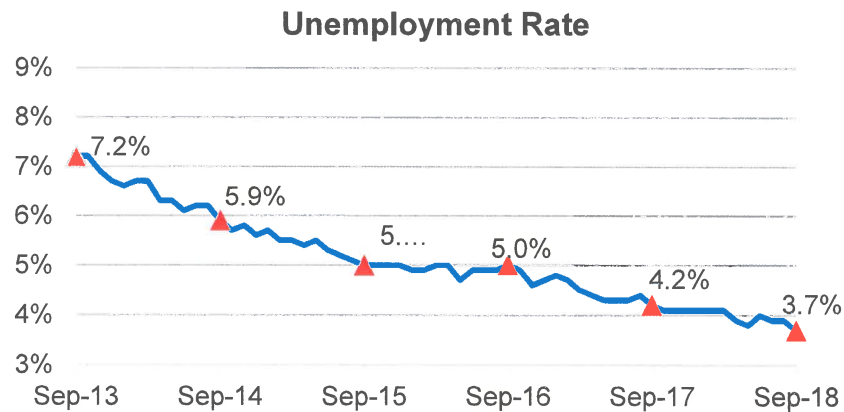
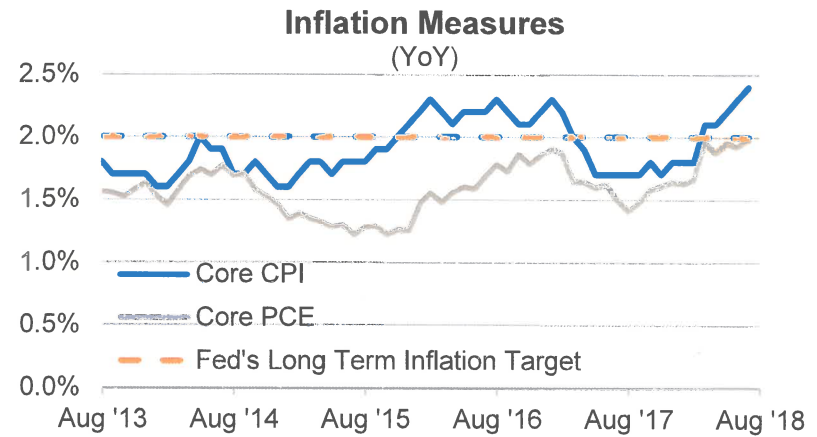
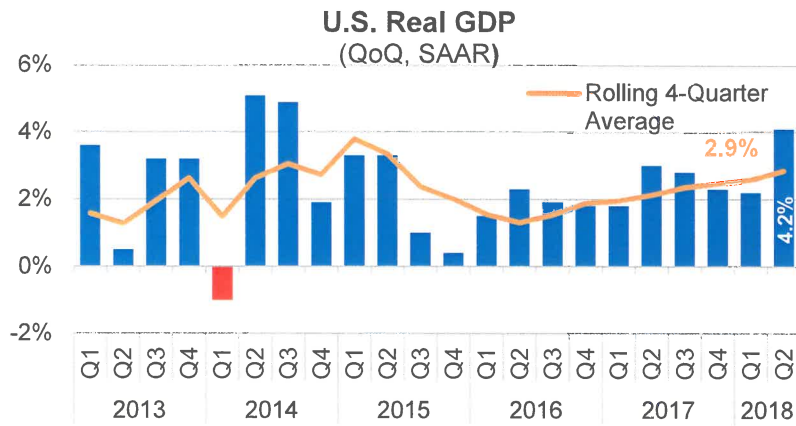
Security Type	September 30, 2018	% of Portfolio	Permitted by Policy	In Compliance
U.S. Treasury	\$3,913,382	32.8%	100%	✓
Federal Agency	\$247,820	2.1%	100%	✓
Federal Agency CMOs	\$113,581	1.0%	100%	✓
Municipals	\$169,436	1.4%	100%	✓
Supranationals	\$136,704	1.1%	30%	✓
Negotiable CDs	\$2,015,100	16.9%	30%	✓
Corporate Notes	\$3,743,361	31.4%	30%	✓
Asset-Backed Securities	\$1,210,933	10.2%	20%	✓
Securities Sub-Total	\$11,550,317	96.9%		
Accrued Interest	\$62,876			
Securities Total	\$11,613,194			
LAIF	\$227,597	1.9%	\$65 million	
San Diego Pool	\$14,908	0.1%	100%	
Money Market Fund	\$131,900	1%	20%	✓
Total Investments	\$11,987,599	100.0%		

As of September 30, 2018. Detail may not add to total due to rounding.



Economic Summary

- Economic conditions remain favorable for addition rate hikes.



Source: Bloomberg, data available as of 9/30/18. SAAR is seasonally adjusted annualized rate.



Treasury Yields Continue to Rise

- The third quarter marked the tenth straight quarterly rise in the 2-year yield as the U.S. economy remained strong and the Federal Reserve continued to raise interest rates.
- The 2-year Treasury increased by 29 basis points to 2.82% in the third quarter.

Quarter	Ending Yield	QoQ Change
3Q2018	2.82%	0.29%
2Q2018	2.53%	0.26%
1Q2018	2.27%	0.38%
4Q2017	1.89%	0.42%
3Q2017	1.47%	0.09%
2Q2017	1.38%	0.11%
1Q2017	1.27%	0.07%
4Q2016	1.20%	0.56%
3Q2016	0.64%	0.00%

Source: Bloomberg, as of 9/30/2018.





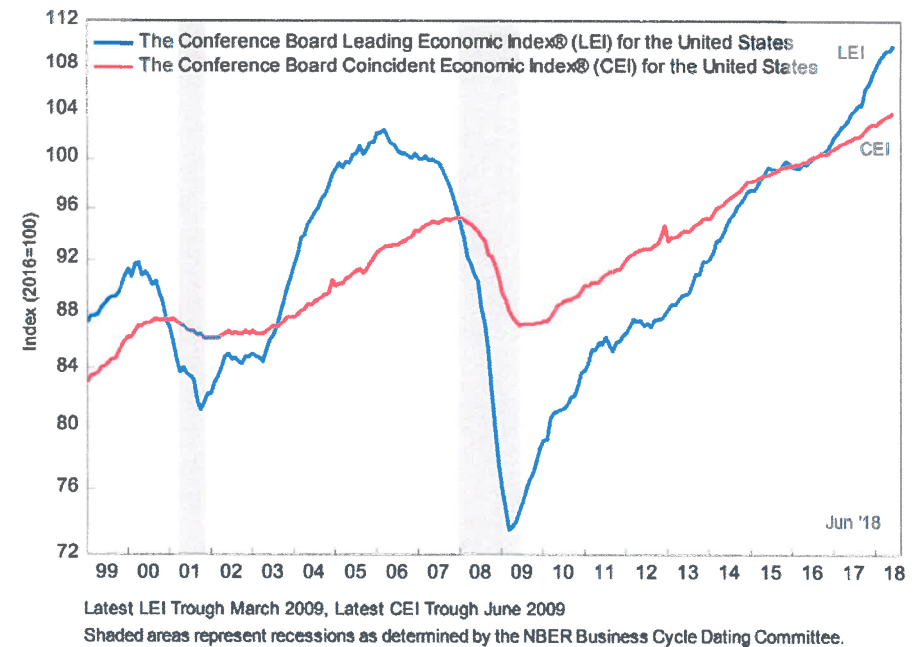
Where Are We in the Economic Cycle?

- Current indicators suggest continuing solid growth in the economy with no recession in the near-term

Different Indicators Give Differing Views

Duration	Length of cycle	Late
Slack	Labor market slack	Late
	Output market slack	Late
Cost pressures	Wage growth	Mid
	Unit labor cost growth	Early
Cyclical demand	Resi investment/GDP	Early
	Housing starts	Mid
	Consumer durables/GDP	Early
	Capital spending	Mid
Confidence	Cyclically adj. confidence	Mid
Leverage	Household leverage	Early
	Most levered companies	Mid
Credit	Bond default rates	Mid
	Loan delinquencies	Mid
	Bank lending standards	Mid
Profits	S&P 500 margins	Late
	Earnings rel. to normalized	Mid

The Conference Board Leading Economic Index Continues to Rise



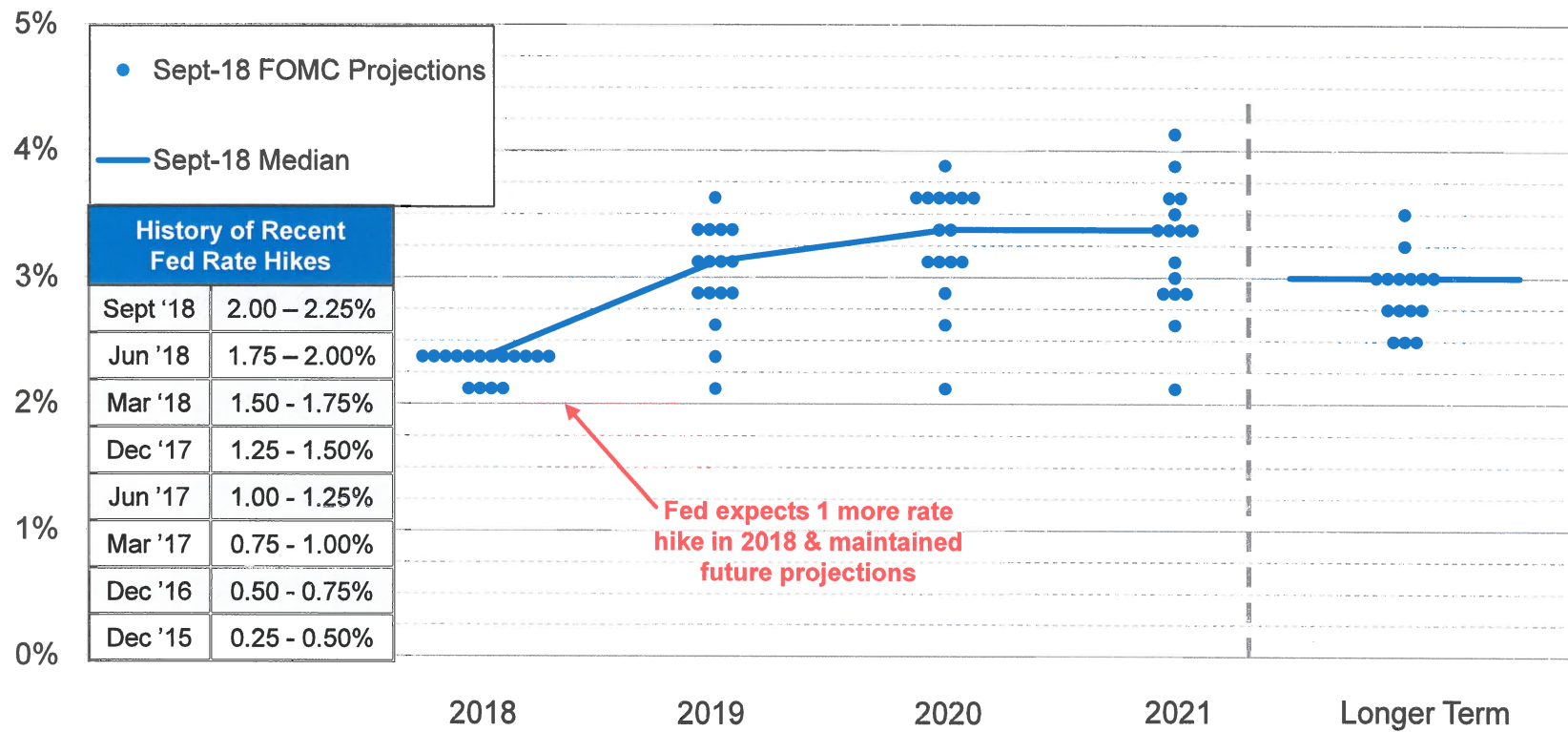
Source (left): Wall Street Journal; Deutsche Bank. Source (right): Conference Board.



Market Outlook

- Overall economic conditions remain strong with only a slight chance of a recession in 2019. However, trade wars, higher interest rates, and political events could impact economic growth over the longer-term.
- Based on the strength of current economic conditions, the FOMC's September "Dot Plot" projects one more rate hike in 2018 and three hikes in 2019.

Fed Participants' Assessments of 'Appropriate' Monetary Policy



Source: Federal Reserve and Bloomberg. Individual dots represent each Fed members' judgement of the midpoint of the appropriate target range for the federal funds rate at each year-end.



Disclosures

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**Fiscal Year 2017-18 Year-End Budget Status
Report**



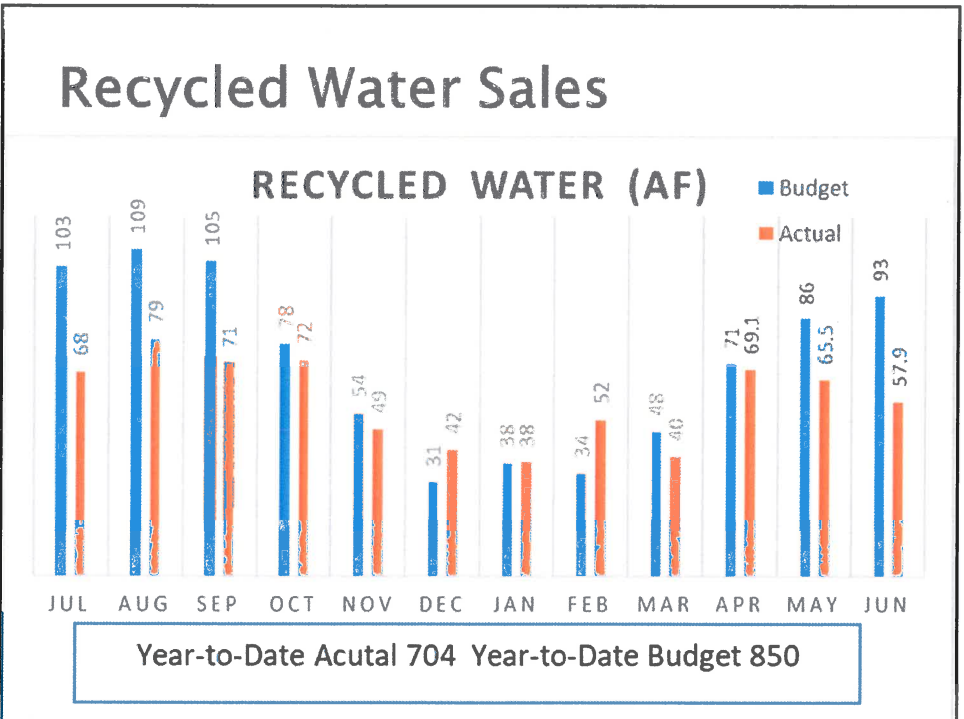
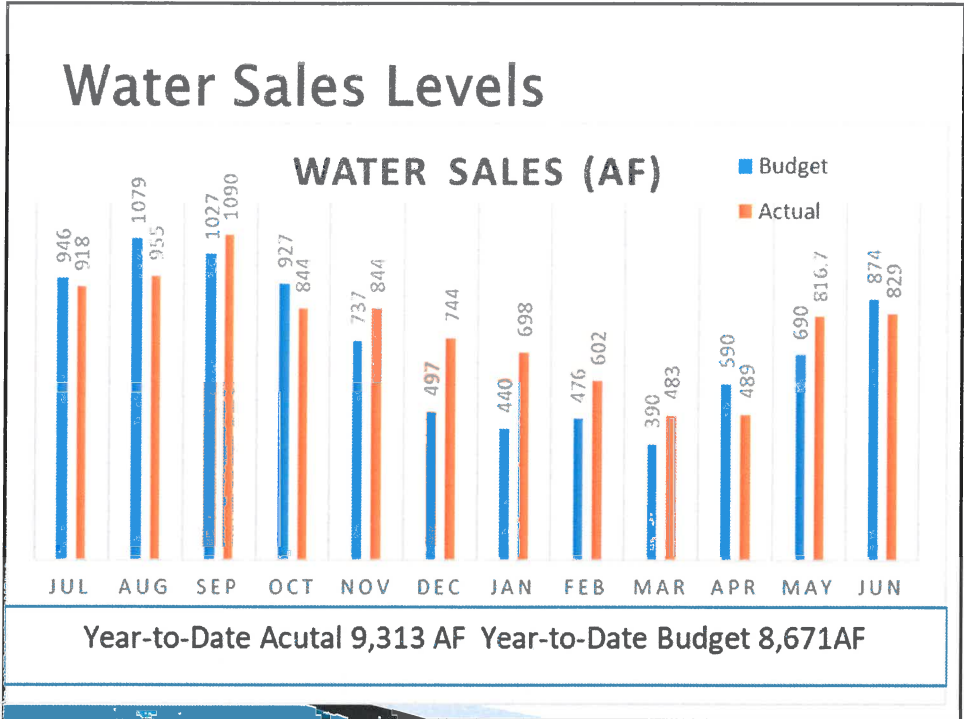
Fallbrook Public Utility District

Fiscal Year 2017-2018

Financial Performance

Agenda

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



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:									
Water Sales ⁹	878,921	1,693,203	15,669,032	15,388,356	280,676	1.8%	15,388,356	280,676	1.8%
MWD Readiness to Serve ⁴	17,327	17,463	382,315	357,204	25,111	7.0%	357,204	25,111	7.0%
CWA Infrastructure Access Charge	35,178	34,278	408,065	411,331	(3,266)	-0.8%	411,331	(3,266)	-0.8%
Meter Service Charges	512,796	445,702	5,741,831	5,348,419	393,412	7.4%	5,348,419	393,412	7.4%
Wastewater Service Charges	323,860	482,325	5,115,092	5,787,904	(672,812)	-11.6%	5,787,904	(672,812)	-11.6%
Sundry Other Revenue	32,575	25,508	329,873	306,100	23,773	7.8%	306,100	23,773	7.8%
CWA Rebates	12,980	13,537	151,060	162,448	(11,388)	-7.0%	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%	27,761,762	35,506	0.1%

↑

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%
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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%

* Annual and monthly budgeted amounts were updated for mid-term budget report.

Expenses

	Current Month		Year-To-Date			
	Actual	Budget	Actual	Budget	Variance	%
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	(877,344)	-	877,344	NA
Total Operating Expenses	2,268,049	2,335,307	26,573,280	26,574,812	1,532	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	29,184,099	29,188,835	4,736	0.0%
Net Revenue/(loss) From Operations and Debt Service	(130,814)	674,352	4,311,329	3,688,436	622,893	16.9%

* Annual and monthly budgeted amounts were updated for mid-term budget report.

Capital Expenditures and Net Revenues

	Current Month		Year-To-Date			
	Actual	Budget	Actual	Budget	Variance	%
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	(2,954,650)	(2,362,787)	(591,863)	25.0%

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

* Annual and monthly budgeted amounts were updated for mid-term budget report.

Reserve Utilization


- ▶ Last Fiscal Year (2017–2018)
 - The originally adopted budget projected a \$5.2M draw on 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)

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M E M O

TO: Fiscal Policy & Insurance Committee
FROM: David Shank, Assistant General Manager/CFO 
DATE: October 16, 2018
SUBJECT: Use of Proceeds from the Sale of the Santa Margarita property

Purpose

Begin discussions on how to best use the proceeds from the sale of the District's Santa Margarita River property.

Summary

Staff have identified several potential uses of the sale proceeds. These uses include:

- **Fund Rate Stabilization Reserve** – While the project is anticipated to produce water every year, the amount of water produced is expected to vary each year based upon the regions hydrological conditions. While the revenue/production of the plant will vary, the District's costs related to the plant are fixed. This means that when the plant is not producing water the District must still pay for the plant and purchase additional wholesale water. This will increase the volatility of the District's cost of water. The rate stabilization reserve will mitigate the volatility in the District's cost of water by providing a funding source for the plant costs during periods of reduced water production.

As discussed in the 2017 Rate Study Report, a reserve equal to 2-years of debt service is to be established. Two years of debt service, based upon the budgeted project cost of \$45 million, is about \$5.4 million. The sale of the property provides a unique opportunity to fund this reserve with no rate impact. Establishing a reserve this size for the District would take many years and require rate increases to fund it. Once funded, during years where the water production levels are less than projected reserve draws will be made to fund plant revenue shortfalls. In years where production is higher than projected, funds will be put into the reserve if it is less than its target level.

- **Fund Capital Project** – The sale proceeds could be used to pay for a portion of the treatment plant costs. For every \$1M funded annual debt service will be reduced by approximately \$60,000.
- **Fund District CalPERS Pension Obligation** – The District's current unfunded pension obligations are approximately \$10M. By reducing this pension obligation, the District could reduce its annual pension costs. For every \$1M it reduces its unfunded pension obligation, the District would save approximately \$75,000 a

year. Additional savings on the annual payment for the unfunded liability may also be realized.


- **Fund the Pension 115 Trust** – Under this option, the District would contribute to the existing 115 Trust. Funds would be invested under the current investment strategy and accumulated in the trust, which can be used to make pension payments. This would take advantage of the more diverse investment options available to the trust and not available to the District under the State’s investment code. The investment earnings rate of the trust will vary based upon market conditions but it is expected to achieve an earnings rate similar to CalPERS.

Once the Board establishes its preferred options, staff can develop a more detailed discussion of next steps.

Recommended Action

This is a discussion item and no action is required.

M E M O

TO: Fiscal Policy & Insurance Committee
FROM: David Shank, Assistant General Manager/CFO 
DATE: October 16, 2018
SUBJECT: Accounting System Review/Optimization Update

Purpose

Provide a status update on the progress of staff's efforts to improve the financial system and the impact of unanticipated work associated with preparing for the District's financial audit.

Summary

Staff had identified several significant projects related to improving the financial system and had put a budget together to complete these tasks. The tasks included:

- **Payroll Processing** – The District has implemented electronic timesheets which has streamlined payroll significantly. However, within Springbrook, there may be an opportunity to modify how the cost of benefits are tracked. The goal is to have the benefit costs and labor costs hit the same accounts. This would eliminate monthly journal entries and improve the efficiency of accounting staff.
- **Inventory Accounting** – The District's inventory accounting procedures and processes need to be evaluated.
- **Balance Sheet Review** – Currently the District's assets are classified as one type. The assets should be broken into categories that mirror what the audit uses. For example, land should be split out in the accounting system from depreciable assets.
- **Project Management** – There may be an opportunity to eliminate a level of redundancy in tracking project costs. Currently the Springbrook Work Order and Project Management modules are used to track costs. This creates a level of redundancy that can be eliminated. The elimination of this redundancy would allow the same level of project management but reduce the work associated with managing the system.
- **Staff Support** – It is necessary from time to time to augment staff due to unforeseen circumstances. The ability to access resources to support the District's activities is essential to the department's ability to operate effectively.

Due to staffing changes and a deep analysis of the District's general ledger and corresponding system modules, the level of effort needed for staff support to prepare and complete the annual financial audit was significantly higher than anticipated. The drivers behind this higher than expected level of effort include:

- A significant amount of preparation work was required for the audit. This included preparing reconciling reports and gathering data for the auditor.

- During the development of reconciling reports many issues were discovered. Many were relatively easy to fix while others required a significant amount of research and resulted in prior period adjustments.
- A large number of entries were either omitted or were not reversed for the new fiscal year. For example, the general ledger did not match the prior year's audit numbers. During this process, many prior period entries had to be reversed and or changed to reconcile the beginning balances to the prior audit.
- A significant amount of time was spent getting net fund balance (not cash) to roll forward and cleaning up the fixed asset records for the District.

The auditors have received the District's final financial information and are reviewing the data to begin drafting the financial statements for the District. The audit process has exposed additional issues that need to be cleaned up this year. These include accounting for compensated absences as well as additional improvements to fund structure. Platinum Consulting Group has performed under these challenging conditions well and is uniquely qualified to continue to support the District. While the Balance Sheet Review and Inventory Accounting tasks have been complete, a significant amount of work remains.

The Fiscal Year 2018-2019 Adopted Budget included \$80,000 for consulting services, related to the financial management system (See Attachment A). As of the end of September, the budget amendment for \$40,000 has almost fully expended. There have been approximately \$7,500 in salary savings associated with the vacant position that offset some of the costs to support staff. Staff estimates that another \$30,000 in work is necessary to finish the clean-up work associated with the audit, complete the transition away from Work orders and to implement the other enhancements identified above and discussed with the Committee.

Recommended Action

That FP& I recommend the Board authorize staff to amend the professional services agreement with Platinum Consulting Group to complete the tasks identified above to the scope of serves and add a not-to-exceed cost of \$30,000. This cost is included in the Fiscal Year 2018-19 budget.

Attachment A

Table #4 - Administrative Services, Division Budget to Budget Comparison, con't

Description	FY 2016-17 Actual	FY 2017-18		FY 2018-19 Budget	Budget to Budget Change (%)
		Budget	Projected		
Human Resources					
Labor:					
Salaries	\$ 187,599	\$ 221,537	\$ 221,537	\$ 212,081	-4.3%
Non-Labor:					
Materials/Supplies/Services		31,977	31,977	36,677	14.7%
Professional Services		10,700	10,700	13,234	23.7%
Training		90,982	90,982	82,300	-9.5%
Total Non-Labor	\$ 52,338	\$ 133,659	\$ 133,659	\$ 132,211	-1.1%
Division Operating Total	\$ 239,937	\$ 355,196	\$ 355,196	\$ 344,292	-3.1%
Information Management					
Labor:					
Salaries	\$ 83,726	\$ 77,283	\$ 77,283	\$ 81,880	5.9%
Non-Labor:					
Materials/Supplies/Services		51,500	51,500	53,450	3.8%
Professional Services		2,000	62,000	80,000	100.0%
SpringBrook		35,000	35,000	35,000	0.0%
Telephones		80,100	80,100	97,200	21.3%
Total Non-Labor	\$ 151,144	\$168,600	\$228,600	\$ 265,650	57.6%
Division Operating Total	\$ 234,870	\$ 245,883	\$305,883	\$ 347,530	41.3%
Engineering Services					
Labor:					
Salaries	\$ 573,429	\$ 607,876	\$ 607,876	\$ 670,293	10.3%
Non-Labor:					
Non - Capital Equipment		-	-	\$ 15,000	100%
Materials/Supplies/Services		45,100	45,100	53,800	19.3%
Total Non-Labor	\$ 33,017	\$ 45,100	\$ 45,100	\$ 68,800	52.5%
Division Operating Total	\$ 606,447	\$ 652,976	\$ 652,976	\$ 739,093	13.2%
Safety & Risk					
Labor:					
Salaries	\$ 165,903	\$ 192,192	\$ 192,192	\$ 186,300	-3.1%
Non-Labor:					
Insurance		270,000	270,000	265,000	-1.9%
Professional Services		75,969	75,969	75,969	0.0%
Total Non-Labor	\$ 94,690	\$ 345,969	\$ 345,969	\$ 340,969	-1.4%
Division Operating Total	\$ 260,593	\$ 538,161	\$ 538,161	\$ 527,269	-2.0%

* Detailed line item expenditure not available for Fiscal Year 2016-17.