

Agenda

Sacramento Suburban Water District Finance and Audit Committee

3701 Marconi Avenue, Suite 100
Sacramento, CA 95821

Monday, October 8, 2018
2:00 p.m.

Where appropriate or deemed necessary, the Committee may take action on any item listed on the agenda, including items listed as information items. Public documents relating to any open session item listed on this agenda that are distributed to all or a majority of the members of the Board of Directors less than 72 hours before the meeting are available for public inspection in the customer service area of the District's Administrative Office at the address listed above.

The public may address the Board concerning an agenda item either before or during the Board's consideration of that agenda item. Persons who wish to comment on either agenda or non-agenda items should fill out a Comment Card and give it to the General Manager. The President will call for comments at the appropriate time. Comments will be subject to reasonable time limits (3 minutes).

In compliance with the Americans with Disabilities Act, if you have a disability, and you need a disability-related modification or accommodation to participate in this meeting, then please contact Sacramento Suburban Water District Human Resources at 916.679.3972. Requests must be made as early as possible, and at least one full business day before the start of the meeting.

Call to Order

Pledge of Allegiance

Roll Call

Announcements

Public Comment

This is the opportunity for the public to comment on non-agenda items within the Committee's jurisdiction. Comments are limited to 3 minutes.

Items for Discussion and Action

1. Fixing the 2018 Employer Contribution at an Equal Amount for Employees and Annuitants Under the Public Employees' Medical and Hospital Care Act Follow Up
Receive written staff report and direct staff as appropriate.

2. 2018 Employee Compensation Study Update
Receive written staff report and direct staff as appropriate.

3. 2018 Audit Engagement Letter and Contract
Authorize the Finance and Audit Committee Chair, Director Thomas, to execute the Audit Engagement Letter and Contract with Richardson and Company.

Adjournment

Upcoming Meetings:

Monday, October 15, 2018 at 6:00 p.m., Regular Board Meeting
Tuesday, October 30, 2018 at 4:30 p.m., Special Board Meeting
Monday, November 19, 2018 at 6:00 p.m., Regular Board Meeting

I certify that the foregoing agenda for the October 8, 2018, meeting of the Sacramento Suburban Water District Finance and Audit Committee was posted by October 5, 2018, in a publicly-accessible location at the Sacramento Suburban Water District office, 3701 Marconi Avenue, Suite 100, Sacramento, California, and was made available to the public during normal business hours.

Dan York
General Manager/Secretary
Sacramento Suburban Water District



Agenda Item: 1

Date: October 2, 2018

Subject: Fixing the 2018 Employer Contribution at an Equal Amount for Employees and Annuitants Under the Public Employees’ Medical and Hospital Care Act Follow Up

Staff Contact: Daniel A. Bills, Finance Director

Background:

At the July 16, 2018, regular Board meeting, the District’s Board of Directors approved Resolution No. 18-12 stipulating that the District remain in the CalPERS medical program for 2019. However, the Board had some concerns and asked staff to bring back more information on the CalPERS health plan. At the September 17, 2018 Board meeting, staff addressed all the questions posed by the Board. Upon review, certain Board members had additional questions, which questions were assigned to this Committee for further review and discussion.

There are several governing legal standards that affect the Board’s control over health care benefits. First, is the District’s enabling legislation, the County Water District law (California Water Code sections 30000 through 33901). The County Water District Law authorizes the District to provide employee benefits as part of its employment system but does not set any specific standards or limits on their scope. Second is LAFCo Resolution No. 1237, which is the document under which the District was formed. Section 1.f. of this resolution guarantees that “pre-merger” employees’ compensation, benefits and other conditions of employment shall not be reduced. There is no similar requirement for any new District employees hired after the effective date of the consolidation. The final set of legal requirements are provided under the Public Employee Health and Medical Care Act (PEHMCA) administered by CalPERS. When the District elected to join CalPERS on January 1, 2003, it elected to follow CalPERS rules primarily set by PEHMCA. CalPERS further divides employees and annuitants between those hired prior to January 1, 2003, to those hired after. The governing legal requirements are discussed in further detail in Exhibit 1 – Annotated Memorandum from Legal Counsel dated August 11, 2010, and updated as of September 25, 2018.

Legal Counsel Joshua M. Horowitz will be present at the meeting to address Committee questions.

Attachment: Exhibit 1 – Annotated Memorandum from Legal Counsel dated August 11, 2010, updated as of September 25, 2018.

EXHIBIT 1



Bartkiewicz, Kronick & Shanahan

A Professional Corporation

MEMORANDUM

TO: BOARD OF DIRECTORS, SACRAMENTO SUBURBAN WATER DISTRICT

CC: ROB ROSCOE, GENERAL MANAGER

FROM: JOSHUA M. HOROWITZ

DATE: AUGUST 11, 2010 [With 10-2-18 Notes for 10/8/18 F&A Committee Meeting]

RE: DISTRICT'S LEGAL AUTHORITY TO ALTER EMPLOYEE BENEFITS

Several Board members have expressed concern about controlling the District's employee and retiree benefits costs and have asked what legal authority the Board has to change existing benefits. This memorandum discusses the Board's authority to change the various types of pension and health care benefits offered by the District to employees and retirees. This memorandum also briefly addresses other types of benefits that the District offers to active employees. Because the District has different legal obligations to active employees and retirees, and because the District has different legal obligations to active employees depending on date of hire, this memorandum addresses the District's obligations to each class of employees and retirees separately.

I. EXISTING EMPLOYEES FORMERLY EMPLOYED BY AWD AND NWD

A. Summary of SSWD Obligations to Employees at Consolidation

The first class of existing District employees are those who were first employed by Arcade Water District ("AWD") or Northridge Water District ("NWD") and who remained employed by the District when it was formed on February 1, 2002 by consolidation of the former districts. Under Sacramento LAFCO Resolution No. LAFC 1237 approving the consolidation and Board Resolution No. 02-02, all "pre-consolidation" employees are vested in the compensation, benefits and other terms and conditions of their respective employment with AWD or NWD as of January 31, 2002. As a result, the Board cannot reduce the level of pension, health care and other employment benefits that such employees were entitled to on the consolidation date. All pre-consolidation employees are vested in the "3 at 60, final 12 months compensation" pension formula, fully paid employment and retiree health benefits and in the other employment benefits that were offered by AWD and NWD to their respective employees at consolidation. There are 27 active employees in this class.

Commented [DB1]: As of 9/30/18 employees in this class total 16.

Commented [JMH2]: This and all other head counts of employees in each benefits class should be updated as necessary.

B. Discussion

1. Pension Benefits:

Technically, all pre-consolidation employees are only entitled to the level of pension benefits that were in effect as of January 31, 2002. AWD employees were entitled to a District contribution of 20 percent of salary to a purchase money (defined contribution) plan. For NWD employees, the District was required to contribute both the employer's and the 7 percent employees' share of contributions to a "2 at 55, final 12 months compensation" CalPERS defined benefit pension plan. Because pension benefits are considered a vested right when earned under California law, when the District adopted the CalPERS "3 at 60, 12 months final compensation" pension formula in September 2002, all active District employees at that time were deemed to have become vested in the "3 at 60" plan.

Under current vested rights law, the Board does not have the authority to reduce pre-consolidation employees' 3 at 60 pension formula to the 2 at 55 formula/purchase money plan contribution unless the Board provides a comparable benefit to make up for the reduction. Note, however, that the issue of retroactive increases in pension benefits is being litigated in a case involving the City of San Diego and its police and fire employees. If a final court judgment is issued in favor of the city, the Board may be able to require that CalPERS apply the 2 at 55 formula to each employee's pre-consolidation years of service and the 3 at 60 formula for all post-consolidation years of service.¹

Commented [JMH3]: This case was decided against the City and in favor of the unions. But, currently there are three related cases pending in the California Supreme Court that will review and decide the scope and effect of the so-called "California Rule" on vested pension rights. A decision is expected on later 2019. But for now, the rules discussed in this memorandum remain in effect.

2. Health Care Benefits:

All pre-consolidation employees are vested in a right to District-paid health care premiums because of the vesting of existing benefits provided in the LAFCo Resolution No. LAFCo 1237 and Board Resolution No. 02-02. This applies both to full payment of premiums while such employees are active and when retired from District service. As we have previously advised the Board, however, we believe that the District may reasonably limit the amount paid for pre-consolidation employees' health care premiums by limiting the number of fully funded health plans. For example, the District could, as for active employees, fully fund only the lowest cost available HMO and PPO plans for such employees and their dependents and require them to pick up a portion of the premiums if they desire to enroll in a higher-cost HMO or PPO plan. The Board has already capped health benefit premium payments for all active employees based on this advice.

Also, in accordance with Section 1.5 (p. 2) of the Employee Policy and Procedures Manual ("Manual") ["The District reserves full discretion to add to, modify, or delete provisions of this Manual and other employment policies, procedures, work rules, or benefits, at any time and without advance notice."], and Section 4.1 (p. 14) of the Manual ["The District and its benefit providers reserve the right to reduce or terminate any of these benefits at any time and for any

¹ As a practical matter, it also would be difficult to quantify the value of former AWD employees' benefits under the purchase money plan. The District would need to hire an actuary to calculate the appropriate valuation. The District also would have to negotiate with CalPERS to terminate the participation of former AWD employees from the District pension plan or to apply the appropriate PERS pension formula to the accounts of former AWD employees.

reason. . . . Except as required by law, employees will not become entitled to any vested rights under any of the benefits provided the District.”], the Board has the right to reduce or change any upgraded or additional health care benefits provided to pre-consolidation employees that were granted after consolidation occurred.

3. Other Benefits:

Pre-consolidation employees also are vested in other types of employment benefits that were offered by AWD or NWD to active employees at the time of consolidation, subject to any then-existing limitations and exclusions. For example, AWD and NWD employees have greater vacation accrual rights than post-consolidation employees. (See Manual, Section 5.1.2, p. 20.) Again, however, if the Board has provided any new or increased benefits to employees since consolidation, it has the right to change or reduce those new or increased benefits for all employees as long as pre-consolidation employees’ vested benefits are protected.

II. EXISTING EMPLOYEES EMPLOYED BY SSWD AFTER CONSOLIDATION BUT BEFORE THE 2006 CHANGE IN PENSION PLAN

A. Summary of SSWD Obligations to Employees Hired After Consolidation But Before the Change in Pension Plan

The second class of existing District employees are those who were first employed by the District after consolidation, but before the Board adopted the existing “second tier” 2 at 55 pension plan adopted effective September 25, 2006. This class of employees is vested in the 3 at 60 pension formula. They are not vested in any employment-related health care benefits and are only vested in any retiree health care benefits to the extent that they already have been earned. Under the Board’s policies, these employees also are not vested in other types of employment benefits. There are 18 active employees in this class.

Commented [DB4]: As of 9/30/18, employees in this class total 15.
Commented [JMH5]: See Comment JMH1 – head count of this class should be updated, if it has changed.

B. Discussion

1. Pension Benefits:

Employees hired after consolidation but before the September 25, 2006 adoption of the second tier pension plan have the same pension rights as those described for pre-consolidation employees in Section I.B.1., page 2, of this memorandum. Also see Part V, page 6 of this memorandum for a discussion of the Board’s authority to require employees to begin paying a portion of the employees’ share of CalPERS pension contributions.

2. Health Care Benefits:

The Board may change the health benefits plan design for existing and new active employees, including changing health plan providers, the plans offered, and the employee contribution levels for such benefits. (See Section I.B.2. above quoting Sections 1.5 and 4.1 of the Manual.) This authority includes terminating the District’s participation in CalPERS’ health care programs administered under the Public Employees Medical and Hospital Care Act (“PEMHCA”), and

obtaining health care benefits from another provider. The Board already has instituted such a change when it adopted a cap on health care premiums effective January 1, 2007. Under that cap, the District pays the entire premium for the lowest cost HMO or PPO plan offered by CalPERS for each employee and his or her dependents, but any employee wishing to enroll in a higher cost plan must pay the difference in premiums.

All employees who were hired after January 1, 2003 (this includes all 33 employees hired post-consolidation) are subject to the "10/20" retiree health care vesting schedule provided in PEMHCA. The 10/20 vesting schedule requires an employee to work a minimum of 10 years in CalPERS service, with at least five years at the District, before they vest in any right to District-paid retiree health care. At year 10, qualified employees become vested in a right to District payment of 50 percent of their retiree health care premiums and earn an additional 5 percent right to District pick-up of premiums annually until vested in a right to fully-paid health care premiums after 20 years of service. Regardless of the 10/20 vesting schedule, the Board also has limited discretion to change active employees' retiree health care benefits. While active employees probably are vested in any retiree health care benefits that they have already earned, the Board may alter future benefits by changing plan design or by reducing or eliminating such benefits as long as any rights in which employees have vested are protected. Other than any vested employee rights in healthcare benefits already earned, the only limits on the Board's discretion to change active employees' retiree health care benefits would be any limitations imposed by CalPERS' regulations and policies under PEMHCA.

If the Board is interested in altering current health care benefits provided under PEMHCA, the Human Resources Coordinator should consult with CalPERS health benefits staff to determine if CalPERS has adopted any regulations or policies that may limit or impact the District's authority to change the existing health benefits plan for active employees.

3. Other Benefits:

Under Sections 1.5 and 4.1 of the Manual (See discussion in Section I.B.2. above), the Board has full authority to reduce or eliminate other types of employment benefits offered to employees hired post-consolidation. The Board's policy is consistent with existing law, which provides the Board with complete discretion to alter other employment benefits absent a clear written policy promising employees a certain, stated level of benefits.

III. EXISTING EMPLOYEES EMPLOYED BY SSWD AFTER CONSOLIDATION AND AFTER 2006 CHANGE IN PENSION PLAN

A. Summary of SSWD Obligations to Employees Hired After Consolidation and After Change in Pension Plan

The third class of existing District employees are those who were first employed by the District after consolidation and after the Board adopted the "second tier" 2 at 55 pension plan effective September 25, 2006. These employees are vested in the 2 at 55, average last three years compensation pension formula adopted by the Board in July 2006. They are not vested in any employment-related health care benefits and are only vested in any retiree health care benefits to

Commented [JMH6]: See Comment JMHI – head count of this class should be updated – presumably this number has changed due to retirements, new hires and workforce expansion. One point to keep in mind is that the District will over time naturally reduce its costs as employees in the more generous benefits classes retire and pass away or leave for private sector or public sector jobs.

Commented [DB7]: As of 9/30/18, employees hired after this date total 51.

the extent they already have been earned. Under the Board's policies, these employees also are not vested in any other employment benefits. There are 15 active employees in this class.

Commented [DB8]: As of 9/30/18, employees in this class total 16.
Commented [JMH9]: Per comment JMH 1, update

B. Discussion

1. Pension Benefits:

Employees hired after consolidation and after the September 25, 2006 adoption of the second tier pension plan are vested in the second tier 2 at 55, average final 3 years of compensation and 7 percent EPMC pension formula. These employees cannot vest in the previous 3 at 60 plan unless the Board decides to discontinue the second tier pension plan and consolidate all employees into the first tier pension plan. Also see Part V, page 6 of this memorandum for a discussion of the Board's authority to require active employees in this class to begin paying a portion of the employees' share of CalPERS pension contributions.

Commented [JMH10]: This discussion is no longer valid as any such proposal would be prohibited by PEPRRA. Also, this memorandum is outdated because it does not address the 1/2013 enactment of PEPRRA and that law's effect on SSWD's pension benefits program, which now sets a fourth tier of pension benefits that applies to all new employees that do not qualify as a "classic" CalPERS member.

2. Health Care Benefits:

Employees in this class are subject to the same health care benefits rules described in Section II.B.2., page 3, of this memorandum.

3. Other Benefits:

Employees in this class are subject to the same other employment benefits rules described in Section II.B.3., page 4, of this memorandum.

IV. DISTRICT RETIREES

A. Summary of SSWD's Obligations to Retirees

Under the California vested rights doctrine, District retirees are vested in their pensions upon retirement and such benefits cannot be altered by the District. The extent to which the vested rights doctrine protects retiree health care benefits is less clear – it appears that retirees who have earned a right to District-paid health care are vested in a continued right to some reasonable level of paid benefits, although the majority of appellate cases indicate that the Board has limited discretion to change retiree health plan design, for example by limiting the number of plans offered or by capping premiums. The District currently has 25 retirees receiving pension and health benefits.

Commented [DB11]: As of 9/30/18, retirees receiving pension and health benefits total 29.
Commented [JMH12]: Again, this head count probably is no longer valid and needs to be updated.

B. Discussion

1. Pension Benefits:

Retirees are vested in a right to the pension formula under which they retired. Because retirees are no longer employed by the District and because retiree pension benefits are administered and paid by CalPERS, the District has no right to change retiree pension benefits in any way.

2. Health Care Benefits:

Retirees are vested in the health care benefits that they had accrued upon retirement from the District. While CalPERS administers retirees' health care benefits, the administration of those benefits is coordinated with the District, which continues to pay the costs of those benefits. In addition, as discussed in this memorandum, the weight of legal authority appears to provide some authority for the District to alter plan design and to cap premiums for existing retirees' health care benefits. However, CalPERS may have adopted regulations or policies that limit any authority of contracting agencies to alter retiree health plan design or to cap premiums. If the Board is interested in trying to limit its exposure for retiree health care costs (in addition to its previous action to pre-fund OPEB obligations), the Human Resources Coordinator should contact CalPERS health care staff to discuss these issues.

3. Other Benefits:

Retirees are not considered District employees and therefore do not have any rights to other types of benefits offered to active District employees.

V. A COMMENT ON CHANGING RESPONSIBILITY FOR PAYMENT OF EMPLOYEE CONTRIBUTIONS TO CALPERS PENSION PLAN

To date, the District has "picked-up" the entire EPMC for its employees. This also was the practice at AWD and NWD. One unresolved issue in public employment law is whether a public agency that does not have an employee union may begin requiring its employees to pay a portion or the entire employees' share of contributions to that agency's CalPERS defined benefit retirement plan (the "EPMC"). Because of the promises made to pre-consolidation employees not to change their benefits as they existed at consolidation, the Board probably cannot require those employees to pay all or most of the EPMC.² The current trend in the courts indicates that the District may be able to require employees hired post-consolidation to begin paying some or all of the EPMC.

Recent California Supreme Court and court of appeal cases support an argument that the Board may require employees to begin paying some or all of the EPMC because it is an element of compensation that can be changed. Some older cases support the argument that the EPMC is a vested right that the District cannot alter without either providing an equivalent benefit, for example a salary increase in the same percentage as the reduction in EPMC payments, or by negotiating the change with employees and obtaining their consent. The California Supreme Court has not settled this question, so the answer is unclear. In fact, a 1945 Supreme Court case ruled that once a public agency agrees to pick up the EPMC, that pick-up becomes a vested right and cannot be changed unless the agency provides a compensating benefit in exchange for reducing its pick-up of the EPMC. More recent decisions indicate that the California Supreme Court might overturn its 1945 decision but no case is pending before the court that would present an opportunity to revisit that earlier case.

Commented [JMH13]: As noted in comment JM12, this statement is no longer valid as three cases that might change this rule are pending in the California Supreme Court.

² Because the existing NWD pension formula was 2 at 55 with a 7 percent EPMC, the Board arguably could require former NWD employees pick up 1 percent of the EPMC under the current 3 at 60 with 8 percent EPMC plan. Former AWD employees probably cannot be required to pick up any EPMC because that district fully paid all purchase money plan costs.

Because of the uncertain state of the law, a decision to reduce or eliminate the EPMC is a risk management and policy issue that the Board should consider carefully before implementing. In contrast, the law is clear that the Board may require all new hires to pay some or all of the EPMC. If the Board is interested in investigating whether to require existing or new employees to begin paying a portion or all of the EPMC, the District's Human Resources Coordinator should consult with CalPERS to determine if it has adopted any regulations or policies concerning the payment of the EPMC that might impact or limit the Board's authority to require such contributions.



Agenda Item: 2

Date: October 5, 2018

Subject: 2018 Employee Compensation Study

Staff Contact: Daniel A. Bills, Finance Director

Recommended Committee Action:

Approve forwarding to the full Board for consideration and potential approval at the October 15, 2018 Regular Board Meeting:

1. DRAFT 2018 Employee Compensation Study (Study) – Exhibit 1 (To be finalized prior to Board Meeting).
2. Staff Recommendation (see below)
3. Updated Employee Compensation Policy (Exhibit 2)

Background:

The District last conducted an employee compensation study in 2016. After consideration of the information in the study, the Board approved changing the pay ranges for four positions. Per section 300.00 of the District’s Employee Compensation Policy (PL – HR 002), the General Manager is to periodically “provide pay/salary and benefit benchmarking information and surveys for Board review,” and “may change or alter the labor budget during the year by...submitting an amended labor budget, explaining reasons for the change, and receiving Board approval for the change.”

Discussion:

Upon approval of the 2018 Operations and Maintenance Budget in November 2017, the Board approved performing and funding an employee compensation study in 2018. With a new General Manager and actual and announced retirements of certain managerial staff and seasoned employees, it was decided to review the District’s Organization Chart in its entirety. After reviewing the Organization Chart and as part of standard District practices of reviewing job descriptions and assignments for positions upon employee severance, it quickly became apparent that a full-review of District staffing was necessary. Accordingly, as the Board has been updated on all year, the Study was defined and split between two consultants.

The first consultant was Bryce Consulting who was asked to provide input on the District’s Organization Chart and to review employee job descriptions. Bryce Consulting has been providing such services to the District for many years. The results of Bryce Consulting’s work was a new set of revised and updated job descriptions for nearly every position in the District. Comments were also received on the Organization Chart.

The second consultant was hired to perform the Market Compensation Survey (Survey) portion of the Study. This Consultant was selected through the Request-for-Proposal (RFP) process. The

winning firm was Ralph Andersen & Associates located in Rocklin, CA. The results of their draft Survey is attached as Exhibit 1 with attachments.

Analysis:

Survey results are based on the exact same “market” as utilized in the 2016 Survey (see Exhibit 1, page 3 for a list of comparative agencies used in the Survey.)

The draft results of the Survey are dramatic and striking. In reviewing Exhibit 1, slide 7, For Non-Exempt positions, the District currently falls at the very bottom in compensation relative to other water agencies in the market or 15th out of 15. Meaning all other agencies will out recruit SSWD when competing for new hires and attract District employees we need to retain. For Exempt positions, referring to the same slide, the District currently falls at the second from the bottom in compensation relative to other water agencies in the market or 19th out of 20.

From slide 8 it can be seen that District total compensation is roughly 16.5% below the mid-point of the 3rd quartile of the market, the previous District compensation benchmark, and 12.2% below median. To get back to the middle of the 3rd quartile, salaries would need to increase by \$820,000 per annum, which coupled with attendant salary-related benefits of \$180,000, increases District compensation by \$1,000,000 per annum. To move up to the median compensation level, salaries would need to increase by \$610,000 per annum and when coupled with salary-related benefit increases of \$130,000, a compensation increase of \$740,000 would be necessary.

Other interesting items to note from the draft survey are:

1. Referring to slides 10 and 11, cash based benefits (Deferred Comp., Retirement Pickup) and Insurance benefits (Health, Dental, Vision, Life, LTD) are better than many of our peers offer. However, our retirement benefits (health, dental and vision) are less than our peers offer.
2. As discussed on slides 12 and 13, the internal relationship ratios are recommended to be different than the District has historically utilized.

Proposed Implementation Alternatives:

Implementing the results of the Study can be accomplished in a number of different ways:

1. Select the market compensation level the Board desires the General Manager to target, i.e. third-quartile, median or other. See section 200 a.) of Exhibit 2; and
Either:
2. Direct the General Manager to select the “midpoint of the third quartile” in the labor market for District compensation, increasing District costs by roughly \$1,000,000 per annum; or
3. Direct the General Manager to select the “median” in the labor market for District compensation, increasing District costs by roughly \$740,000 per annum; or
4. Direct the General Manager to select the “median” in the labor market for District compensation from January 1, 2018 through December 31, 2019 and the “midpoint of the third quartile” beginning January 1, 2020, increasing District costs by roughly \$740,000 in 2018 and 2019 and an additional \$260,000 in 2020.

Conclusion and Staff Recommendation:

Per the Board’s adopted Strategic Plan (PL – BOD 001), one of the “Values” of the District is to “Achieve high levels of staff professionalism through career development, including training opportunities, and retention of skilled staff with competitive compensation.” For awhile now, compensation has not been competitive. Anecdotally, staff has been aware of this problem through the lack of qualified respondents to job announcements and the number of District staff who leave District service for another competing agency within the District’s market. To rectify this problem, staff recommends option2 from above as follows:

1. Update the “Employee Compensation Policy, PL-HR 002” by adding language to the 2nd sentence in section 200.00 a) as follows “...the General Manager will target **the third quartile** of compensation in the appropriate labor market when setting compensation for District positions.” See Exhibit 2. This was the prior practice of the District.
2. Direct the General Manager to select the “third quartile” in the labor market for District compensation, increasing District costs by roughly \$1,000,000 per annum.
3. Implement Survey results on January 1, 2018. By definition, Survey results are indicative of the market today. Therefore, historically upon Board acceptance of the Survey, salary bands and employee salaries within the salary bands have moved commensurate with the new results and are effective upon Survey acceptance. However, falling from the third quartile to the very bottom of compensation does not occur over night. This is a systemic issue that has happened over a few years.
4. Cost-of-living-adjustments (COLAs) and merit increases are in addition to changes from the Study as such are intended to keep Survey results “current” in subsequent years until the next Survey is performed.

Fiscal Impact:

Study costs - \$38,495 - \$8,500 for Bryce Consulting; \$29,995 for Ralph Andersen & Associates.

If the staff recommendation is approved, Labor costs, per annum, are expected to increase by roughly \$1,000,000 beginning in 2018.

Strategic Plan Alignment:

Customer Service – 3.B. Attract and retain a well-qualified staff with competitive compensation, effective training, and professional development to ensure safe, efficient and effective job performance.

Finance – 4.H. Produce and monitor an annual budget for system operations, maintenance and replacements.

**Ralph Andersen &
Associates**

October 5, 2018

Sacramento Suburban Water District

2018 Compensation Survey Report

Why Surveys Are Done

Compensation surveys are a necessary part of assessing and updating an organization's compensation plan.

- Anticipate and understand what labor market is doing
- Data-driven framework for allocating resources to wages and benefits
- Provide defensibility and public accountability employee compensation
- Optimize the District's ability to recruit and retain employees
- Processes such as fact-finding are data-driven

Public and Private employers both use market data to assess compensation; just a difference in accessibility and transparency of data.

Survey Agencies & Selection Criteria

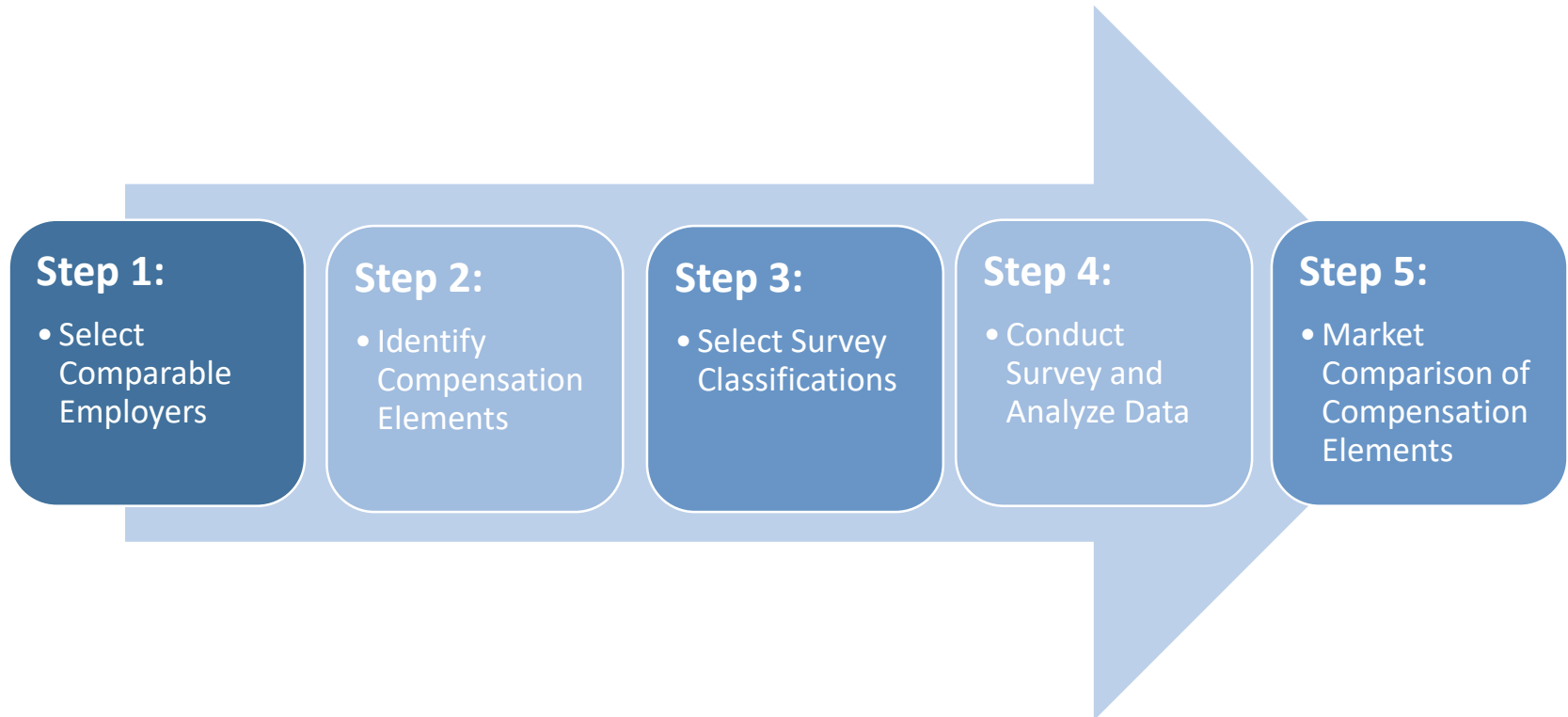
- Historical Practices
- Natures of Services
- Geographic Proximity
- Size
- Economic Similarity

Carmichael Water District
Citrus Heights Water District
City of Davis
City of Folsom
City of Roseville
City of Sacramento
City of West Sacramento
City of Woodland
El Dorado Irrigation District
Elk Grove Water District
Fair Oaks Water District
Placer County Water Agency
Sacramento County
San Juan Water District

Supplemental Management Agencies

Amador Water Agency
City of Lodi
San Luis and Delta Mondata WA
Stockton East Water District
Stockton Municipal Utility (City)

Survey Process



Compensation survey data was collected by the project consultants and included the collection and analysis of the following:

- Organization charts, budgets, and position control documents
- Job descriptions
- Salary schedules
- Follow-up information provided by each survey agency
- Additional survey research based on District feedback

Survey job matches were determined by the project consultants and went beyond title comparisons.

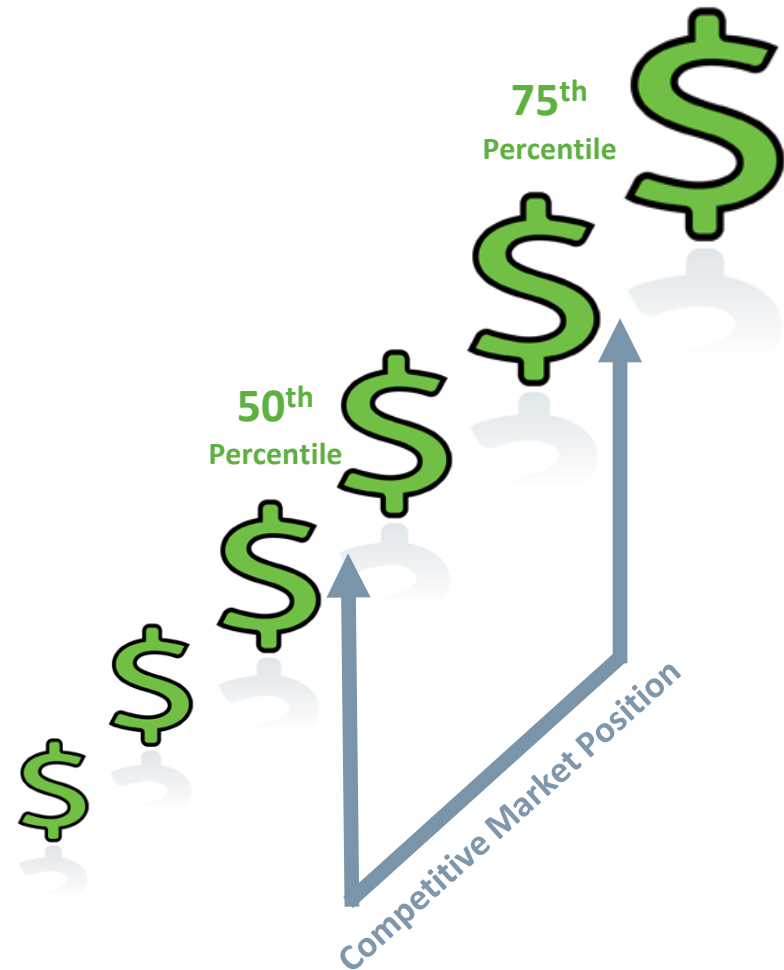
Matching Job Classifications

Matching job classifications relies on a number of source documents beyond comparisons of job descriptions.

- Job matches only occur if a position exists and is allocated in the budget (and staffed). Some agencies may have legacy job descriptions or titles in their salary schedules that are not used.
- Job matches are based on a review of major and essential job duties along with a comparison of qualifications. Significant differences can result in no comparable job being matched. Examples of differences include:
 - Mismatches in qualification requirements such as requiring specific certifications or a four-year degree
 - Different organization structures such as layers of supervisory and management and broader responsibilities
 - Position allocations that demonstrate working versus advanced levels
- Factors not considered in matching jobs:
 - Staffing, equipment, facility, and resource differences that don't impact required skills and abilities
 - Job functions performed within a broad classification that is used in many assignments
 - Job classifications performing the same duties but in a different department
 - Employee performance or unique qualifications that are beyond what is required
- The survey data will include matches that are similar as well as those that will be slightly higher or lower in role and responsibility.

Market Position

- Establishes competitive position
- Historical practices is an important consideration; change in practice requires explanation
- \$ or % differences between percentiles depends on the array of data; can be very small if data is tightly arrayed
- Recruitment and retention goals



Survey Agency Rank (by percentile)

Non-Exempt

Pctile	Agency
90	San Juan Water District
87	Citrus Heights Water District
67	City of Roseville
67	City of Sacramento
67	El Dorado Irrigation District
61	City of Folsom
57	Placer County Water Agency
55	Elk Grove Water District
54	Fair Oaks Water District
52	Sacramento County
44	City of West Sacramento
25	City of Woodland
25	City of Davis
20	Carmichael Water District
19	Sacramento Suburban WD

62.5 P

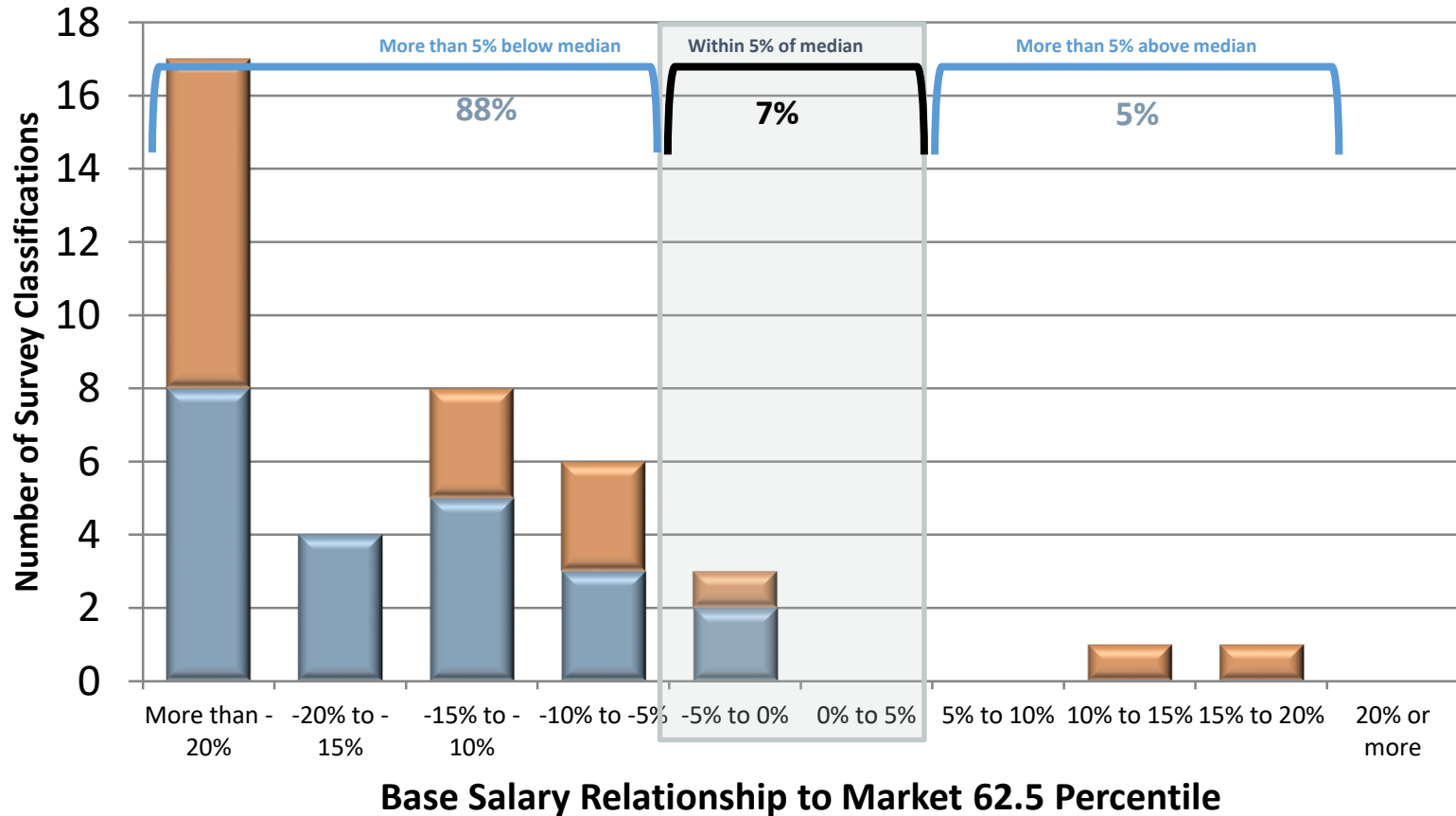
Exempt

Pctile	Agency
90	San Juan Water District
87	Citrus Heights Water District
67	City of Roseville
67	City of Sacramento
67	El Dorado Irrigation District
61	City of Folsom
57	Placer County Water Agency
55	Elk Grove Water District
54	Fair Oaks Water District
52	Sacramento County
44	City of West Sacramento
41	Stockton Municipal Utility (City)
39	San Luis and Delta Mondata WA
34	Stockton East Water District
25	City of Lodi
25	City of Woodland
25	City of Davis
20	Carmichael Water District
19	Sacramento Suburban WD
16	Amador Water Agency

62.5 P

Market Summary – 62.5 Percentile

16.5% Below 62.5 Percentile on Average

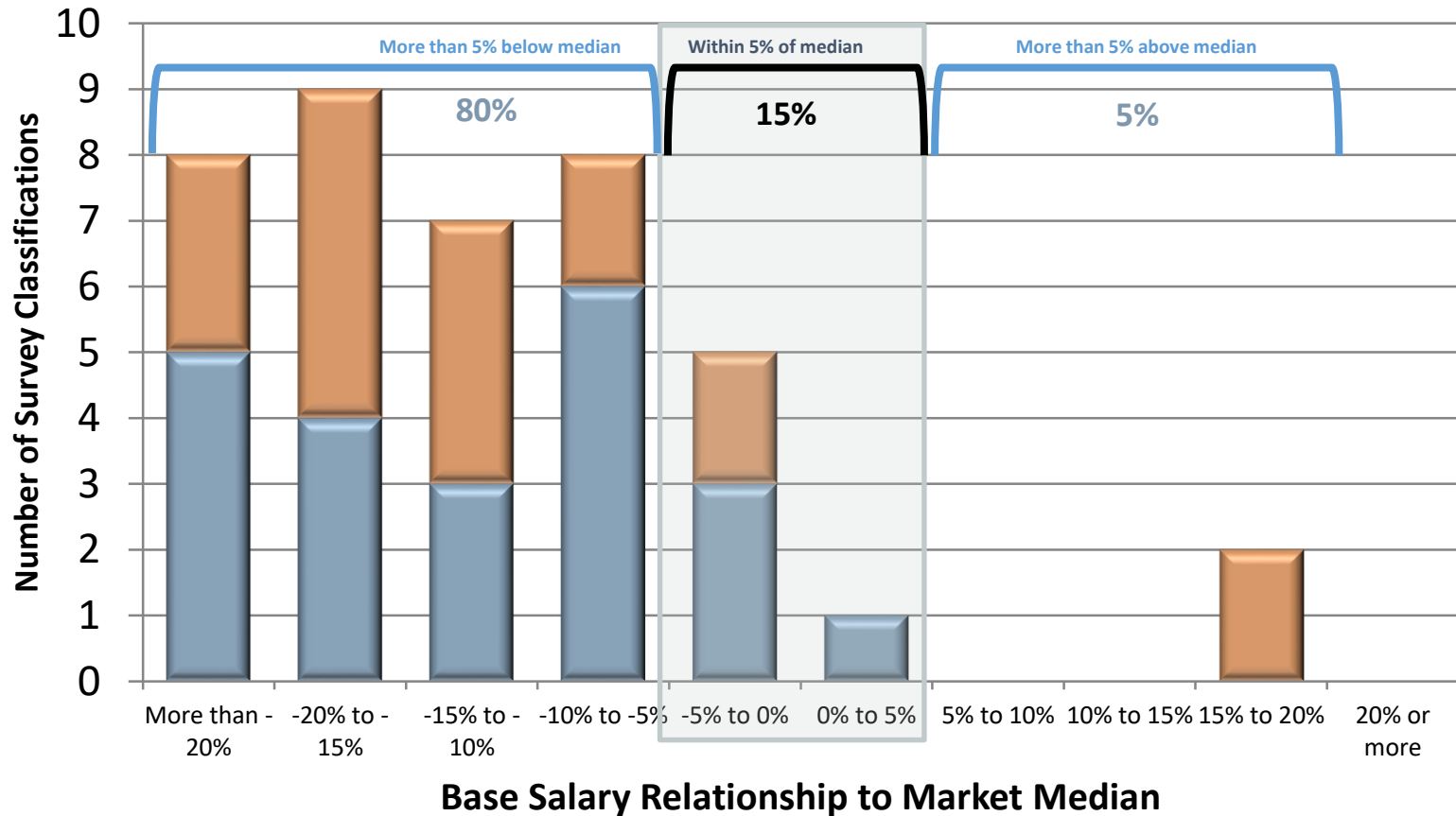


Strongest trend of the survey jobs should be in shaded region

■ Non-Exempt ■ Exempt

Market Summary – 50th Percentile

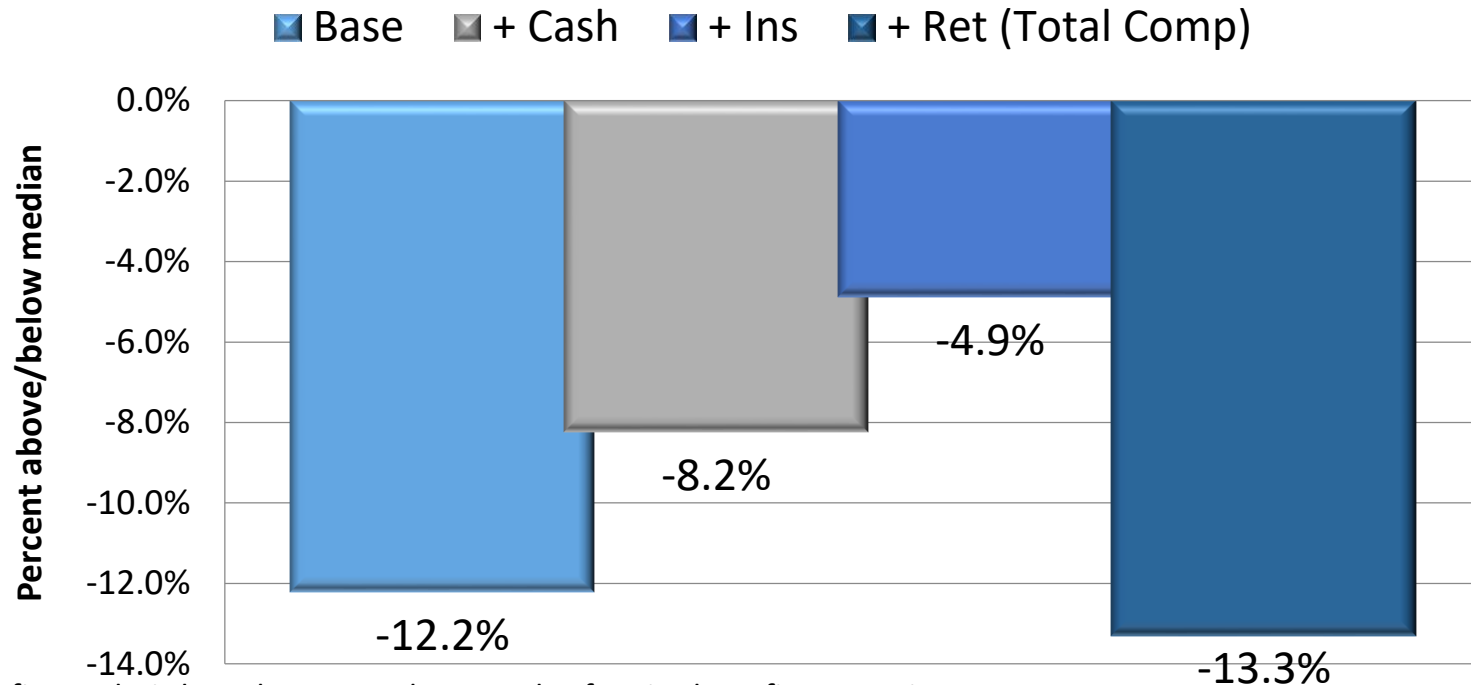
12.2% Below Median on Average



Strongest trend of the survey jobs should be in shaded region

■ Non-Exempt ■ Exempt

Benefits Survey Summary – All Jobs



Benefits analysis based on snap-shot trends of major benefit categories

- When base salary ranges are compared, the District is 12.2% below median overall
- When cash benefits are added to base salary and the cumulative totals analyzed, the District is 8.2% below market median. This means the District's cash benefits are slightly higher than market, but not significantly so (differences of 3% are not significant)
- When insurance benefits are cumulatively added to base and cash benefits, the District is 4.9% below the market median which indicates a slight gain due to higher insurance benefits (employer cost)
- When retirement benefits are added, the District is 13.3% below market median, a loss of 8.4% due to weaker retirement benefits
- **Overall, the District loses 1.1% in market position when benefits are added.**

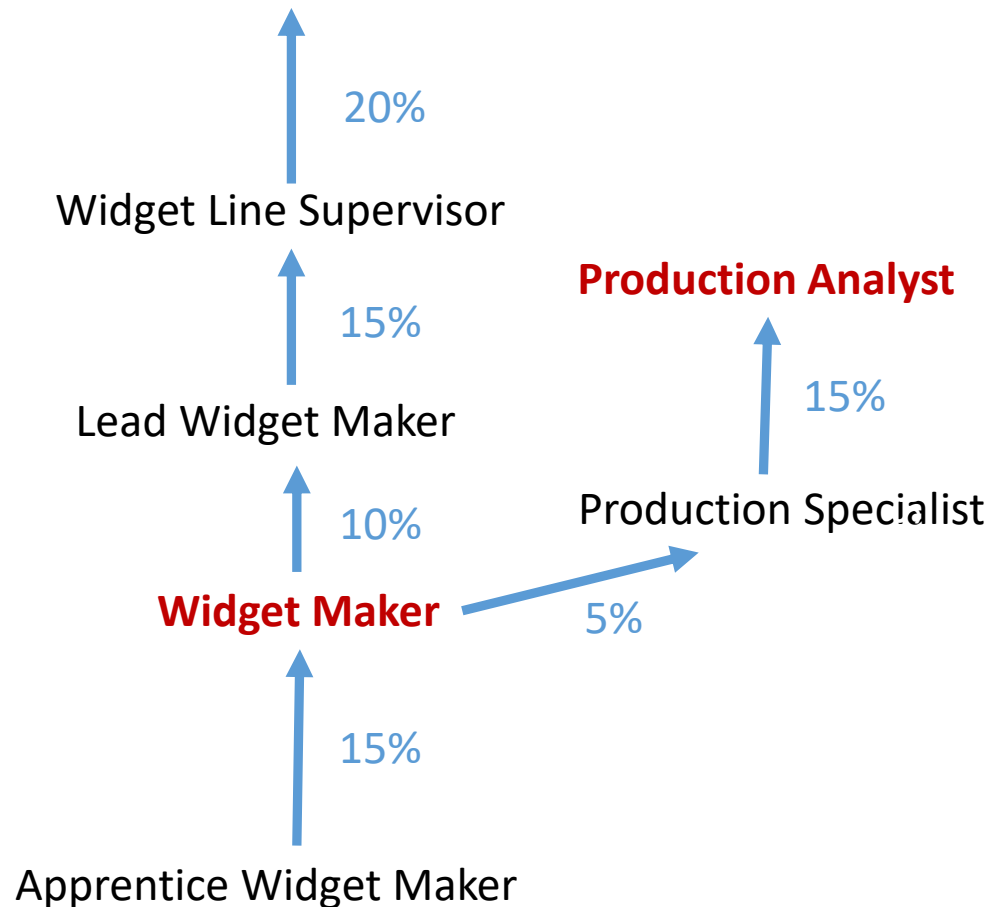
Summary of Benefit Differences

- Cash Benefits
 - District pays 7% of the employee retirement contribution (EPMC). Only two other agencies pay a portion of the employee contribution.
- Insurance Benefits
 - On average, the District's combined Health, Dental, and Vision insurance costs are \$130 more than the market.
- Retirement Benefits
 - The District's employer retirement contribution costs are significantly lower than the market average.
 - Just over half of the market agencies have Social Security benefits (FICA).
- Overall, the District's benefits don't significantly impact it's competitive market position.

Benchmarking - Example

- Establish market benchmarks
 - Best job matches
 - High number of comparables
 - Best data statistically
- Analyze internal relationship
- Establish % differentials
- Result: salary range adjustments

Widget Production Manager



Salary Range Recommendations

- Benchmark positions tied to market median
 - Not all jobs need market ties
 - Tied to range maximum
- Internal relationships
 - Assessment of differences and similarities in duties, role, responsibilities, qualifications, and resources
 - 5% difference between jobs when minor differences exist
 - 10% between classes in a series where moderate differences exist
 - 15% - 20% minimum over subordinates and between job classes with significant differences
- Adjustments to pay range, not employee salary
- Internal salary alignments for internal equity where important
 - Some market relationships may be ignored due to internal ties and better market benchmarks
- Adjusted to fit the District's salary table

Sacramento Suburban Water District
Salary Recommendations; Market Benchmarking
Benchmark Classes set to Market 62.5 Percentile

Line	Classification Job Title	Current Range Max	Market Deviation	Recomm. Range Max	Percent Change	Internal Alignment/Salary Setting Rationale
1	General Manager	\$ 13,750	-21.5%	\$ 16,706	21.5%	Benchmark; set to market
2	Assistant General Manager	\$ 12,678		\$ 15,271	20.5%	Approx. 5% above Director of Finance & Administration
3						
4	Executive Assistant to the General Manager	\$ 7,405		\$ 6,512	-12.1%	Approx. 20% above Administrative Assistant II
5	Administrative Assistant II	\$ 5,035	-7.8%	\$ 5,427	7.8%	Benchmark; set to market
6	Administrative Assistant I	\$ 4,141		\$ 4,141	0.0%	Approx. 10% below Administrative Assistant II
7						
8	Director of Finance & Administration	\$ 11,494	-26.5%	\$ 14,544	26.5%	Benchmark; set to market
9	Controller	New		\$ 10,204	--	Benchmark; set to market
10	Financial Analyst	\$ 7,405	-5.2%	\$ 7,793	5.2%	Benchmark; set to market
11	Senior Accountant	New		\$ 7,813	--	Approx. 10% above Accountant
12	Accountant	\$ 5,545	-28.1%	\$ 7,103	28.1%	Benchmark; set to market
13	Accounting Technician	New		\$ 5,140	--	Benchmark; set to market
14	Purchasing Specialist	\$ 5,285	-10.0%	\$ 5,815	10.0%	Benchmark; set to market
15						
16	Customer Services Manager	\$ 7,777	-24.0%	\$ 9,647	24.0%	Benchmark; set to market
17	Customer Service Representative II	\$ 4,566	-9.9%	\$ 5,016	9.9%	Benchmark; set to market
18	Customer Service Representative I	\$ 3,758		\$ 4,362	16.1%	Approx. 15% below Customer Service Representative II
19						
20	Human Resources Coordinator	\$ 7,405	-12.2%	\$ 8,308	12.2%	Benchmark; set to market
21						
22	Information Technology Manager	\$ 8,166	-27.8%	\$ 10,437	27.8%	Benchmark; set to market
23	GIS Coordinator	\$ 6,744	-16.6%	\$ 7,864	16.6%	Benchmark; set to market
24	GIS/IT Technician	\$ 5,824	-4.2%	\$ 6,071	4.2%	Benchmark; set to market
25						
26	Engineering Manager	\$ 10,946	-7.0%	\$ 11,717	7.0%	Benchmark; set to market
27	Senior Engineer	\$ 9,925		\$ 10,740	8.2%	Approx. 15% above Associate Engineer (Registered)
28	Associate Engineer (Registered)	\$ 8,578	-8.9%	\$ 9,339	8.9%	Benchmark; set to market
29	Assistant Engineer	\$ 7,082		\$ 8,121	14.7%	Approx. 15% below Associate Engineer (Registered)

SCS* - Same as Current Salary

**Sacramento Suburban Water District
 Salary Recommendations; Market Benchmarking
 Benchmark Classes set to Market 62.5 Percentile**

Line	Classification Job Title	Current Range Max	Market Deviation	Recomm. Range Max	Percent Change	Internal Alignment/Salary Setting Rationale
30						
31	Engineering Project Coordinator	\$ 5,824		\$ 6,930	19.0%	Same as Senior Inspector
32	Senior Inspector	\$ 5,824	-19.0%	\$ 6,930	19.0%	Benchmark; set to market
33	Engineering Drafter	\$ 4,566		\$ 5,775	26.5%	Approx. 20% below Senior Inspector
34						
35	Senior Project Manager	\$ 9,457		\$ 10,228	8.2%	Approx. 15% above Project Manager
36	Project Manager	\$ 8,166		\$ 8,894	8.9%	Approx. 5% below Associate Engineer (Registered)
37						
38	Operations Manager	\$ 10,423	-20.3%	\$ 12,542	20.3%	Benchmark; set to market
39	Safety/Risk Officer	New		\$ 9,144	--	Benchmark; set to market
40						
41	Facilities & Fleet Specialist	\$ 5,285		\$ 6,087	15.2%	Approx. 5% above Water Conservation Technician II
42						
43	Superintendent - Production	\$ 7,777	-30.0%	\$ 10,107	30.0%	Benchmark; set to market
44	Foreman - Production	\$ 6,417	-25.5%	\$ 8,056	25.5%	Benchmark; set to market
45	Production Operator II	\$ 5,285	-14.7%	\$ 6,063	14.7%	Benchmark; set to market
46	Production Operator I	\$ 4,349		\$ 5,052	16.2%	Approx. 20% below Production Operator II
47						
48	Environmental Compliance Supervisor	\$ 7,405	-28.8%	\$ 9,537	28.8%	Benchmark; set to market
49	Environmental Compliance Technician	\$ 5,545	-12.0%	\$ 6,212	12.0%	Benchmark; set to market
50	Cross Connection Control Specialist	\$ 5,545	-20.0%	\$ 6,656	20.0%	Benchmark; set to market
51						
52	Instrumentation & Electrical Technician	\$ 6,417	-14.9%	\$ 7,373	14.9%	Benchmark; set to market
53						
54	Superintendent - Field Services	\$ 7,777	-30.8%	\$ 10,169	30.8%	Benchmark; set to market
55	Field Operations Coordinator	\$ 5,545		\$ 6,656	20.0%	Same as Cross Connection Control Specialist
56						
57	Superintendent - Distribution	\$ 7,777	-30.8%	\$ 10,169	30.8%	Benchmark; set to market
58	Foreman - Distribution	\$ 6,417	-26.3%	\$ 8,102	26.3%	Benchmark; set to market

SCS* - Same as Current Salary

Ralph Andersen & Associates

Sacramento Suburban Water District
Salary Recommendations; Market Benchmarking
Benchmark Classes set to Market 62.5 Percentile

Line	Classification Job Title	Current Range Max	Market Deviation	Recomm. Range Max	Percent Change	Internal Alignment/Salary Setting Rationale
59	Distribution Operator II	\$ 5,035	-20.3%	\$ 6,059	20.3%	Benchmark; set to market
60	Distribution Operator I	\$ 4,141		\$ 5,049	21.9%	Approx. 20% below Distribution Operator II
61						
62	Water Conservation Supervisor	\$ 7,405	-14.1%	\$ 8,452	14.1%	Benchmark; set to market
63	Water Conservation Technician II	\$ 5,035	-15.1%	\$ 5,797	15.1%	Benchmark; set to market
64	Water Conservation Technician I	\$ 4,141		\$ 4,831	16.7%	Approx. 20% below Water Conservation Technician II

Sacramento Suburban Water District
Salary Recommendations; Market Benchmarking
Benchmark Classes set to Market Median (50th Percentile)

Line	Classification Job Title	Current Range Max	Market Deviation	Recomm. Range Max	Percent Change	Internal Alignment/Salary Setting Rationale
1	General Manager	\$ 13,750	-17.5%	\$ 16,161	17.5%	Benchmark; set to market
2	Assistant General Manager	\$ 12,678		\$ 14,450	14.0%	Approx. 5% above Director of Finance & Administration
3						
4	Executive Assistant to the General Manager	\$ 7,405		\$ 6,305	-14.9%	Approx. 20% above Administrative Assistant II
5	Administrative Assistant II	\$ 5,035	-4.3%	\$ 5,254	4.3%	Benchmark; set to market
6	Administrative Assistant I	\$ 4,141		\$ 4,141	0.0%	Approx. 10% below Administrative Assistant II
7						
8	Director of Finance & Administration	\$ 11,494	-19.7%	\$ 13,762	19.7%	Benchmark; set to market
9	Controller	New		\$ 10,204	--	Benchmark; set to market
10	Financial Analyst	\$ 7,405	-3.3%	\$ 7,651	3.3%	Benchmark; set to market
11	Senior Accountant	New		\$ 7,365	--	Approx. 10% above Accountant
12	Accountant	\$ 5,545	-20.8%	\$ 6,696	20.8%	Benchmark; set to market
13	Accounting Technician	New		\$ 5,140	--	Benchmark; set to market
14	Purchasing Specialist	\$ 5,285	-7.5%	\$ 5,682	7.5%	Benchmark; set to market
15						
16	Customer Services Manager	\$ 7,777	-21.0%	\$ 9,414	21.0%	Benchmark; set to market
17	Customer Service Representative II	\$ 4,566	-0.4%	\$ 4,584	0.4%	Benchmark; set to market
18	Customer Service Representative I	\$ 3,758		\$ 3,986	6.1%	Approx. 15% below Customer Service Representative II
19						
20	Human Resources Coordinator	\$ 7,405	-11.8%	\$ 8,277	11.8%	Benchmark; set to market
21						
22	Information Technology Manager	\$ 8,166	-22.7%	\$ 10,020	22.7%	Benchmark; set to market
23	GIS Coordinator	\$ 6,744	-15.6%	\$ 7,793	15.6%	Benchmark; set to market
24	GIS/IT Technician	\$ 5,824	-1.2%	\$ 5,897	1.2%	Benchmark; set to market
25						
26	Engineering Manager	\$ 10,946	-6.8%	\$ 11,695	6.8%	Benchmark; set to market
27	Senior Engineer	\$ 9,925		\$ 10,571	6.5%	Approx. 15% above Associate Engineer (Registered)
28	Associate Engineer (Registered)	\$ 8,578	-7.2%	\$ 9,192	7.2%	Benchmark; set to market
29	Assistant Engineer	\$ 7,082		\$ 7,993	12.9%	Approx. 15% below Associate Engineer (Registered)

SCS* - Same as Current Salary

Sacramento Suburban Water District
Salary Recommendations; Market Benchmarking
Benchmark Classes set to Market Median (50th Percentile)

Line	Classification Job Title	Current Range Max	Market Deviation	Recomm. Range Max	Percent Change	Internal Alignment/Salary Setting Rationale
30						
31	Engineering Project Coordinator	\$ 5,824		\$ 6,847	17.6%	Same as Senior Inspector
32	Senior Inspector	\$ 5,824	-17.6%	\$ 6,847	17.6%	Benchmark; set to market
33	Engineering Drafter	\$ 4,566		\$ 5,706	25.0%	Approx. 20% below Senior Inspector
34						
35	Senior Project Manager	\$ 9,457		\$ 10,068	6.5%	Approx. 15% above Project Manager
36	Project Manager	\$ 8,166		\$ 8,754	7.2%	Approx. 5% below Associate Engineer (Registered)
37						
38	Operations Manager	\$ 10,423	-18.2%	\$ 12,319	18.2%	Benchmark; set to market
39	Safety/Risk Officer	New		\$ 9,144	--	Benchmark; set to market
40						
41	Facilities & Fleet Specialist	\$ 5,285		\$ 5,975	13.1%	Approx. 5% above Water Conservation Technician II
42						
43	Superintendent - Production	\$ 7,777	-27.2%	\$ 9,890	27.2%	Benchmark; set to market
44	Foreman - Production	\$ 6,417	-22.3%	\$ 7,845	22.3%	Benchmark; set to market
45	Production Operator II	\$ 5,285	-7.4%	\$ 5,675	7.4%	Benchmark; set to market
46	Production Operator I	\$ 4,349		\$ 4,729	8.7%	Approx. 20% below Production Operator II
47						
48	Environmental Compliance Supervisor	\$ 7,405	-14.0%	\$ 8,440	14.0%	Benchmark; set to market
49	Environmental Compliance Technician	\$ 5,545	-8.2%	\$ 6,000	8.2%	Benchmark; set to market
50	Cross Connection Control Specialist	\$ 5,545	-19.9%	\$ 6,651	19.9%	Benchmark; set to market
51						
52	Instrumentation & Electrical Technician	\$ 6,417	-11.1%	\$ 7,129	11.1%	Benchmark; set to market
53						
54	Superintendent - Field Services	\$ 7,777	-20.0%	\$ 9,331	20.0%	Benchmark; set to market
55	Field Operations Coordinator	\$ 5,545		\$ 6,651	19.9%	Same as Cross Connection Control Specialist
56						
57	Superintendent - Distribution	\$ 7,777	-20.0%	\$ 9,331	20.0%	Benchmark; set to market
58	Foreman - Distribution	\$ 6,417	-20.2%	\$ 7,713	20.2%	Benchmark; set to market

SCS* - Same as Current Salary

Ralph Andersen & Associates

Sacramento Suburban Water District
Salary Recommendations; Market Benchmarking
Benchmark Classes set to Market Median (50th Percentile)

Line	Classification Job Title	Current Range Max	Market Deviation	Recomm. Range Max	Percent Change	Internal Alignment/Salary Setting Rationale
59	Distribution Operator II	\$ 5,035	-19.4%	\$ 6,012	19.4%	Benchmark; set to market
60	Distribution Operator I	\$ 4,141		\$ 5,010	21.0%	Approx. 20% below Distribution Operator II
61						
62	Water Conservation Supervisor	\$ 7,405	-11.2%	\$ 8,233	11.2%	Benchmark; set to market
63	Water Conservation Technician II	\$ 5,035	-13.0%	\$ 5,691	13.0%	Benchmark; set to market
64	Water Conservation Technician I	\$ 4,141		\$ 4,742	14.5%	Approx. 20% below Water Conservation Technician II

Sacramento Suburban Water District

Employee Compensation Policy

Adopted: July 19, 2004; Approved with changes on October XX, 2018
Revised: ~~September 15, 2008; April 18, 2011; May 20, 2013; April 17, 2017~~

100.00 Purpose of the Policy

The purpose of this policy is to state the intention of the District in regards to employee compensation, delineate the process, and clarify the role and responsibility of the General Manager in the process. A compensation program is necessary to provide each employee with fair and equitable compensation for the value of the skills the employee brings to the District and the position. In order to provide each employee with fair and equitable compensation, it is desirable to develop a systematic method of establishing and maintaining a compensation program. Pursuant to California Water Code Section 30580(d), the General Manager has the responsibility to “fix and alter the compensation of employees and assistants subject to approval by the board” as given during the annual budget process.

200.00 Policy

It is the District’s policy to provide all of its employees fair and equitable compensation defined in terms of comparison to other positions within the District and the local labor market for the value of the skills the employee brings to the position and the District.

- a) It is the District’s policy to remain competitive within the local labor market. To accomplish this, the General Manager will target ~~a level~~the third quartile of compensation in the appropriate labor market when setting compensation for District positions. This includes retirement, health and dental insurance, life insurance, holidays and other benefits, including vacation and sick leave.
- b) The compensation program will include, in addition to direct wages (regular, overtime and stand-by pay), all District holidays and other paid time off benefits, and contributions toward medical/dental/vision insurance, life insurance, short and long term disability, retirement, incentive program and training/educational programs. The total compensation program will be used when comparing the District’s pay level to the current labor market.
- c) It is the District’s policy to provide a program for advancement of its employees within the pay/salary range of their position using a merit-based system based on objective, regular goal setting and performance evaluations.

300.00 Authority and Responsibility

The Board of Directors has the responsibility and authority to establish annual budgetary guidelines for the District that include the annual labor budget.

- a) As part of the proposed annual Operations and Maintenance Budget, the General Manager will prepare and present to the Board of Directors a proposed annual labor budget that will consist of: 1) a detailed annual compensation budget; 2) a proposed merit pool percentage increase; 3) an annual cost-of-living adjustment (COLA); and 4) revised pay/salary bands.
- b) The Board of Directors will consider, amend as needed, and approve the annual labor budget.
- c) The General Manager will have the authority to fix and alter employee compensation within the approved annual labor budget.

The General Manager may change or alter the labor budget during the year by either: 1) requesting the Board of Directors to authorize the General Manager to make such changes at budget adoption; or 2) submitting an amended labor budget, explaining reasons for the change, and receiving Board approval for the change.

The General Manager will have full authority to implement this policy up to the limits of the approved labor budget, which includes:

- Determining staffing requirements, titles, positions, responsibilities and organization structure.
- Setting goals and conducting performance reviews.
- Proposing and, as approved, implementing annual pay/salary adjustments that include annual merit and COLA increases.
- Creating incentive pay programs.
- Creating programs for position upgrades and special assignments.
- Providing pay/salary and benefit benchmarking information and surveys for Board review.
- Creating dual or multiple grade positions as needed.

The General Manager will insure the equitable and uniform implementation of this policy, which includes reporting to the Board on at least an annual basis, typically during the budget process.

400.00 Policy Review

This Policy will be reviewed at least biennially.



Agenda Item: 3

Date: September 26, 2018

Subject: 2018 Audit Engagement Letter and Contract

Staff Contact: Daniel A. Bills, Finance Director

Recommended Committee Action:

Recommend approval of the 2018 Audit Engagement Letter and Contract with Richardson & Company, LLP to the full Board of Directors and request authorization for the Finance and Audit Committee Chair (Director Thomas) to execute the Engagement Letter and Contract.

Discussion:

The District has received the “Engagement Letter” for the December 31, 2018 audit from Richardson & Company, LLP (see Exhibit 1.) The Engagement Letter is the scope of work for the audit and serves as Exhibit 1 to the contract agreement between the District and the auditors and is renewable annually. The District’s contract for the engagement is attached as Exhibit 2.

Staff has reviewed the Engagement Letter and confirmed it meets all the services requested by the Board in previous years, including the expanded expenditure testing that has requested for the past thirteen years over and above that required for a standard public agency audit (see the third paragraph on page 2 of Exhibit 1) and the Federal Grant Single Audit. As noted on page 9 of the Engagement Letter, the cost of the expanded testing will be \$6,495, while the cost for the Single Audit, if one is deemed necessary, will be \$4,330.

Per the District’s “Engagement of Auditor Policy” (PL – Fin 001), “the Finance and Audit Committee is responsible for recommending the District’s independent auditor to the full Board for appointment and compensation, and administering the relationship between the District and independent auditor during the course of the audit...” Therefore, the Finance and Audit Committee will review audit results as the audit progresses. At the conclusion of the audit, the auditors will provide a report to the Finance and Audit Committee and the Board of Directors.

Fiscal Impact:

\$42,815 for the audit, comprised of \$34,500 for the financial statement audit, \$1,020 for reviewing GASB No. 68 retirement disclosures, \$800 for the new OPEB (GASB No. 75) disclosure requirements, and \$6,495 for the District requested additional procedures. An additional \$4,330 may be needed if the Federal Grant Single Audit is deemed necessary.

Strategic Plan Alignment:

Finance – 4.G. Produce annual financial statements and supporting documentation to allow outside auditors to provide the District with unqualified audit opinions.



550 Howe Avenue, Suite 210
Sacramento, California 95825

Telephone: (916) 564-8727
FAX: (916) 564-8728

September 20, 2018

Finance and Audit Committee
Sacramento Suburban Water District
3701 Marconi Avenue
Sacramento, California 95821

We are pleased to confirm our understanding of the services we are to provide the Sacramento Suburban Water District (the District). We will audit the financial statements, including the notes to the financial statements which collectively comprise the basic financial statements of the District as of and for the year ended December 31, 2018. Accounting standards generally accepted in the United States provide for certain required supplementary information (RSI), such as management's discussion and analysis (MD&A), to supplement the District's basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. As part of our engagement, we will apply certain limited procedures to the District's RSI in accordance with auditing standards generally accepted in the United States of America. These limited procedures will consist of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We will not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. The following RSI is required by generally accepted accounting principles and will be subjected to certain limited procedures, but will not be audited:

1. Schedule of funding progress for the other postemployment benefits plan
2. Schedule of Proportionate Share of the Net Pension Obligation
3. Schedule of Contributions to the Pension Plan
4. Schedule of Changes in the Net OPEB Liability and Related Ratios
5. Schedule of Contributions to the OPEB Plan

We have also been engaged to report on supplementary information other than RSI that accompanies the District's financial statements. We will subject the following supplementary information to the auditing procedures applied in our audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial

statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America and will provide an opinion on it in relation to the financial statements as a whole.

1. Schedule of expenditures of federal grants (if applicable).

The following other information accompanying the financial statements will not be subjected to the auditing procedures applied in our audit of the financial statements, and our auditor's report will not provide an opinion or any assurance on that other information.

1. Transmittal Letter
2. Statistical Section

At the request of the District, we will perform additional procedures by expanding the scope of our expense testing to include additional sample sizes for general cash disbursements, payroll disbursements, wire and ACH transfers, petty cash, and purchasing card payments. This testing will include verifying payments to the District employees and Board members on a sample basis. Payment verification will include verifying the pay rates for at least one period of senior management, finance staff, anyone involved in the payroll processing function and a sample of ten other employees. The results of our work will be reported in the governance letter issued as part of the audit.

Audit Objective

The objective of our audit is the expression of opinions as to whether your basic financial statements are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles and to report on the fairness of the additional information referred to in the first paragraph when considered in relation to the basic financial statements taken as a whole. The objective also includes reporting on—

- Internal control related to the financial statements and compliance with the provisions of applicable laws, regulations, contracts, agreements, and grants, noncompliance with which could have a material effect on the financial statements in accordance with *Government Auditing Standards*.
- Internal control related to major programs and an opinion (or disclaimer of opinion) on compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a direct and material effect on each major program in accordance with Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*.

The *Government Auditing Standards* report on internal control over financial reporting and on compliance and other matters will include a paragraph that states (1) that the purpose of the report is solely to describe the scope of testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance, and (2) that the report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. The

Uniform Guidance report on internal control over compliance will include a paragraph that states that the purpose of the report on internal control over compliance is solely to describe the scope of testing of internal control over compliance and the results of that testing based on the requirements of Uniform Guidance. Both reports will state that the report is not suitable for any other purpose.

Our audit will be conducted in accordance with U.S. generally accepted auditing standards; the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the Single Audit Act Amendments of 1996; and the provisions of Uniform Guidance, and will include tests of accounting records, a determination of major program(s) in accordance with Uniform Guidance, and other procedures we consider necessary to enable us to express such opinions. We will issue written reports upon completion of our Single Audit. Our reports will be addressed to the Board of Directors of the District. We cannot provide assurance that unmodified opinions will be expressed. Circumstances may arise in which it is necessary for us to modify our opinions or add emphasis-of-matter or other-matter paragraphs. If our opinions on the financial statements or the Single Audit compliance opinions are other than unmodified, we will discuss the reasons with you in advance. If, for any reason, we are unable to complete the audit or are unable to form or have not formed opinions, we may decline to express opinions or to issue a report as a result of this engagement, or may withdraw from the engagement.

Management Responsibilities

Management is responsible for the basic financial statements, schedule of expenditures of federal grants and all accompanying information as well as all representations contained therein. Management is also responsible for identifying all federal grants received and understanding and complying with the compliance requirements, and for preparation of the schedule of expenditures of federal grants (including notes and noncash assistance received) in accordance with the requirements of Uniform Guidance.

Management is responsible for establishing and maintaining effective internal controls, including internal controls over compliance, and for evaluating and monitoring ongoing activities, to help ensure that appropriate goals and objectives are met; following laws and regulations; ensuring that there is reasonable assurance that government programs are administered in compliance with compliance requirements; and ensuring that management is reliable and financial information is reliable and properly reported. Management is also responsible for implementing systems designed to achieve compliance with applicable laws, regulations, contracts, and grant agreements. Management is also responsible for the selection and application of accounting principles; for the preparation and fair presentation in the financial statements in conformity with U.S. generally accepted accounting principles; and for compliance with applicable laws and regulations and the provisions of contracts and grant agreements.

Management is also responsible for making all financial records and related information available to us and for the accuracy and completeness of that information. Management is also responsible for providing us with (1) access to all information of which they are aware that is relevant to the preparation and fair presentation of the financial statements, (2) additional information that we

may request for the purpose of the audit, and (3) unrestricted access to persons within the government from whom we determine it necessary to obtain audit evidence.

Management's responsibilities also include, including identifying significant vendor relationships in which the vendor has responsibility for program compliance and for the accuracy and completeness of that information. Management's responsibilities include adjusting the financial statements to correct material misstatements and confirming to us in the management representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Management is responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing us about all known or suspected fraud affecting the government involving (1) management, (2) employees who have significant roles in internal control, and (3) others where the fraud or illegal acts could have a material effect on the financial statements. Management's responsibilities include informing us of their knowledge of any allegations of fraud or suspected fraud affecting the government received in communications from employees, former employees, grantors, regulators, or others. In addition, management is responsible for identifying and ensuring that the entity complies with applicable laws, regulations, contracts, agreements, and grants. Management is also responsible for taking timely and appropriate steps to remedy fraud and noncompliance with provisions of laws, regulations, contracts, and grant agreements, or abuse that we report. Additionally, as required by Uniform Guidance, it is management's responsibility to follow up and take corrective action on reported audit findings and to prepare a summary schedule of prior audit findings and a corrective action plan.

Management is responsible for preparation of the schedule of expenditures of federal grants (including notes and noncash assistance received) in conformity with Uniform Guidance. Management agrees to include our report on the schedule of expenditures of federal grants in any document that contains and indicates that we have reported on the schedule of expenditures of federal grants. Management also agrees to make the audited financial statements readily available to intended users of the schedule of expenditures of federal grants no later than the date the schedule of expenditures of federal grants is issued with our report thereon. Management's responsibilities include acknowledging to us in the written representation letter that (1) Management is responsible for presentation of the schedule of expenditures of federal grants in accordance with Uniform Guidance; (2) Management believes the schedule of expenditures of federal grants, including its form and content, is fairly presented in accordance with Uniform Guidance; (3) the methods of measurement or presentation have not changed from those used in the prior period (or, if they have changed, the reasons for such changes); and (4) Management has disclosed to us any significant assumptions or interpretations underlying the measurement or presentation of the schedule of expenditures of federal grants.

Management is responsible for the preparation of the other supplementary information, which we have been engaged to report on, in conformity with U.S. generally accepted accounting principles. Management agrees to include our report on the supplementary information in any document that contains and indicates that we have reported on the supplementary information. Management also agrees to include the audited financial statements with any presentation of the supplementary

information that includes our report thereon or make the audited financial statements readily available to users of the supplementary information no later than the date the supplementary information is issued with our report thereon. Management's responsibilities include acknowledging to us in the written representation letter that (1) Management is responsible for presentation of the supplementary information in accordance with GAAP; (2) Management believes the supplementary information, including its form and content, is fairly presented in accordance with GAAP; (3) the methods of measurement or presentation have not changed from those used in the prior period (or, if they have changed, the reasons for such changes); and (4) Management has disclosed to us any significant assumptions or interpretations underlying the measurement or presentation of the supplementary information.

Management is responsible for establishing and maintaining a process for tracking the status of audit findings and recommendations. Management is also responsible for identifying for us previous financial audits, attestation engagements, performance audits, or other studies related to the objectives discussed in the Audit Objectives section of this letter. This responsibility includes relaying to us corrective actions taken to address significant findings and recommendations resulting from those audits, attestation engagements, performance audits, or studies. Management is also responsible for providing management's views on our current findings, conclusions, and recommendations, as well as planned corrective actions, for the report, and for the timing and format for providing that information.

Audit Procedures-General

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We will plan and perform the audit to obtain reasonable rather than absolute assurance about whether the financial statements are free of material misstatement, whether from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the entity or to acts by management or employees acting on behalf of the entity. Because the determination of abuse is subjective, *Government Auditing Standards* do not expect auditors to provide reasonable assurance of detecting abuse.

Because of the inherent limitations of an audit, combined with the inherent limitations of internal control, and because we will not perform a detailed examination of all transactions, there is a risk that material misstatements or noncompliance may exist and not be detected by us, even though the audit is properly planned and performed in accordance with U.S. generally accepted auditing standards and *Government Auditing Standards*. In addition, an audit is not designed to detect immaterial misstatements or violations of laws or governmental regulations that do not have a direct and material effect on the financial statements or major programs. However, we will inform the appropriate level of management of any material errors, any fraudulent financial reporting or misappropriation of assets that come to our attention. We will also inform the appropriate level of management of any violations of laws or governmental regulations that come to our attention, unless clearly inconsequential, and of any material abuse that comes to our attention. We will

include such matters in the reports required for a Single Audit. Our responsibility as auditors is limited to the period covered by our audit and does not extend to any later periods for which we are not engaged as auditors.

Our procedures will include tests of documentary evidence supporting the transactions recorded in the accounts, and may include tests of the physical existence of inventories, and direct confirmation of receivables and certain other assets and liabilities by correspondence with selected individuals, funding sources, creditors, and financial institutions. We will request written representations from your attorneys as part of the engagement, and they may bill you for responding to this inquiry. At the conclusion of our audit, we will require certain written representations from management about their responsibilities for the financial statements; schedule of expenditures of federal grants; federal award programs; compliance with laws, regulations, contracts, and grant agreements; and other responsibilities required by generally accepted auditing standards. Because of the importance of oral and written management representations to an effective audit, the District releases and indemnifies Richardson & Company, LLP and its personnel from any and all claims, liabilities, costs and expenses attributable to any active negligence on the part of the District.

Audit Procedures-Internal Control

Our audit will include obtaining an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Tests of controls may be performed to test the effectiveness of certain controls that we consider relevant to preventing and detecting errors and fraud that are material to the financial statements and to preventing and detecting misstatements resulting from illegal acts and other noncompliance matters that have a direct and material effect on the financial statements. Our tests, if performed, will be less in scope than would be necessary to render an opinion on internal control and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to *Government Auditing Standards*.

As required by Uniform Guidance, we will perform tests of controls over compliance to evaluate the effectiveness of the design and operation of controls that we consider relevant to preventing or detecting material noncompliance with compliance requirements applicable to each major federal award program. However, our tests will be less in scope than would be necessary to render an opinion on those controls and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to Uniform Guidance.

An audit is not designed to provide assurance on internal control or to identify significant deficiencies. However, during the audit, we will communicate to management and those charged with governance internal control related matters that are required to be communicated under professional standards, *Government Auditing Standards*, and Uniform Guidance.

Audit Procedures-Compliance

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of the District's compliance with applicable laws, regulations, contracts and agreements. However, the objective of our audit will not be to provide

an opinion on overall compliance and we will not express such an opinion in our report on compliance issued pursuant to *Government Auditing Standards*.

Uniform Guidance requires that we also plan and perform the audit to obtain reasonable assurance about whether the auditee has complied with applicable laws and regulations and the provisions of contracts and grant agreements applicable to major programs. Our procedures will consist of test of transactions and other applicable procedures described in the *Uniform Guidance Compliance Supplement* for the types of compliance requirements that could have a direct and material effect on each of the District's major programs. The purpose of those procedures will be to express an opinion on the District's compliance with requirements applicable to each of its major programs in our report on compliance issued pursuant to Uniform Guidance.

Audit Administration and Other

We understand that your employees will prepare all cash, accounts receivable, or other confirmations we request and will locate any documents selected by us for testing.

At the conclusion of the engagement, we will complete the appropriate sections of and sign the Data Collection Form that summarizes our audit findings. We will provide copies of our reports to the District; however, it is management's responsibility to submit the reporting package (including financial statements, schedule of expenditures of federal grants, summary schedule of prior audit findings, auditors' reports, and a corrective action plan) along with the Data Collection Form to the designated federal clearinghouse and, if appropriate, to pass-through entities. We will coordinate with you the electronic submission and certification. If applicable, we will provide copies of our report for you to include with the reporting package you will submit to pass-through entities. The Data Collection Form and the reporting package must be submitted within the earlier of 30 days after receipt of the auditors' reports or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audits.

The workpapers for this engagement are the property of Richardson & Company, LLP and constitute confidential information. The workpapers for this or any engagement for you will be retained for a minimum of seven years after the date the auditor's report is issued, or longer if required by generally accepted auditing standards. The firm will make available its workpapers and respond to all reasonable inquiries of successor auditors and others to review workpapers of the District, upon the District's written request or consent. Access to such workpapers will be provided under the supervision of Richardson & Company personnel at a location designated by our Firm. Furthermore, upon your request or consent, we may provide photocopies of selected workpapers to the successor auditors or others. All professional and administrative services and expenses relating to such access will be charged as an additional expense to the District.

In the event we are requested or authorized by you or required by government regulation, subpoena, or other legal process to produce our workpapers or our personnel to respond to inquiries or serve as witnesses with respect to this or any engagement for you, you will, reimburse us for our professional time and expenses, as well as the fees and expenses of our counsel, in responding to such a request. If such a request is made, and unless we are obligated by law or legal process to the contrary, we will inform you prior to providing such access.

If the District intends to publish or otherwise reproduce in any document our report on the District's financial statements, or otherwise make reference to our Firm in a document that contains other information in addition to the audited financial statements (e.g., in a debt offering circular for example), the District agrees that prior to making any such use of our report, or reference to our Firm, management will provide us with a draft of the document to read and obtain our approval for the inclusion or incorporation by reference of our report, or the reference to our Firm, in such document before the document is printed and distributed. The inclusion or incorporation by reference of our report in any such document would constitute the reissuance of our report and any request by the District to reissue our report or to consent to its inclusion or incorporation by reference in an offering or other document will be considered based on the facts and circumstances existing at the time of such request. The estimated fees outlined herein do not include any services that would need to be performed in connection with any such request to make use of our report, or reference to our Firm; fees for such services would be based upon the rates for additional services as described in the Professional Fees section of this letter.

With regard to the electronic dissemination of audited financial statements, including financial statements published electronically on your Internet website, if applicable, you understand that electronic sites are a means to distributed information and, therefore, we are not required to read the information contained in these sites or to consider the consistency of other information in the electronic site with the original document.

Our Firm, as well as all other accounting firms with a significant audit practice, participates in a "peer review" program, covering our audit and accounting practices. This program requires that once every three years we subject our quality assurance practices to an examination by another accounting firm. As part of the process, the other firm will review a sample of our work. It is possible that the work we perform for you may be selected by the other firm for their review. If it is, they are bound by professional standards to keep all information confidential. If you object to having the work we do for you reviewed by our peer reviewer, please notify us.

Ingrid Shepline will serve as the engagement partner and is responsible for supervising the engagement and may sign the auditor's reports or authorize another individual to sign them.

Government Auditing Standards require that we provide you with a copy of our most recent external peer review report and any letter of comment, and any subsequent peer review reports and letters of comment received during the period of the contract. Our current peer review report accompanies this letter.

Professional Fees

Our total not-to-exceed cost for the year ended December 31, 2018 is as follows:

Financial Audit	\$ 34,500
Additional fee for auditing net pension liability and related disclosures	1,020
Additional fee for GASB 75 implementation	800
Single Audit, one major program	4,330
Additional Procedures	<u>6,495</u>
Total	<u>\$ 47,145</u>

The fees quoted include ten hours per year for occasional consultation with auditing and tax staff regarding accounting, sales tax, arbitrage liabilities or other issues that might arise at the District during the year.

Changes in Scope That Could Result in a New Fee Arrangement: In the event that the scope of the audit increases due to changes in accounting or auditing pronouncements and standards, laws or regulations, material weaknesses in the internal control environment, the loss of key accounting personnel or significant changes in the scope of the District's operations, we will discuss the situation with you and arrive at a new mutually agreed upon fee arrangement.

Additional Services: The fee for additional services provided under this engagement letter or otherwise requested by the District, if any, will be based on a rate per hour by staff classification as follows:

<u>Classification</u>	<u>Rate Per Hour</u>
Partner	\$ 180
Senior Manager	120
Managers and Supervisors	110
Seniors	100
Staff	80

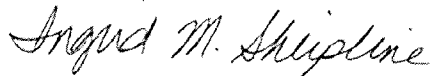
If any provision in this letter is held by a court of competent jurisdiction to be invalid, void or unenforceable, the remaining provisions will nevertheless continue in full force without being impaired or invalidated in any way.

Sacramento Suburban Water District
September 20, 2018
Page 10 of 11

We appreciate the opportunity to be of service to the District and believe this letter accurately summarizes the significant terms of our engagement. If you have any questions, please let us know.

Very truly yours,

RICHARDSON & COMPANY, LLP



Ingrid Sheipline, CPA
Managing Partner

Response:

This letter correctly sets forth the understanding of the Sacramento Suburban Water District and is signed by the officer authorized by the Board of Directors to enter into this agreement on the District's behalf.

By: _____ Title: _____

Date: _____



First Financial Bank Building
400 Pine Street, Ste. 600, Abilene, TX 79601
325.672.4000 / 800.588.2525 / f: 325.672.7049
www.dkcpa.com

System Review Report

July 15, 2015

To the Partners of
Richardson & Company, LLP
and the Peer Review Committee of the California Society of CPAs

We have reviewed the system of quality control for the accounting and auditing practice of **Richardson & Company, LLP** (the firm) in effect for the year ended March 31, 2015. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants. As a part of our peer review, we considered reviews by regulatory entities, if applicable, in determining the nature and extent of our procedures. The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on our review. The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at www.aicpa.org/prsummary.

As required by the standards, engagements selected for review included engagements performed under *Government Auditing Standards* and audits of employee benefit plans.

In our opinion, the system of quality control for the accounting and auditing practice of **Richardson & Company, LLP** in effect for the year ended March 31, 2015, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)* or *fail*. **Richardson & Company, LLP** has received a peer review rating of *pass*.

Davis Kinard & Co, PC

Certified Public Accountants

EXHIBIT 2

SACRAMENTO SUBURBAN WATER DISTRICT
SERVICES AGREEMENT

THIS AGREEMENT is entered into as of the date last signed and dated below by and between Sacramento Suburban Water District, a local government agency ("District"), and Richardson & Company, LLP, a public accounting firm ("Contractor"), who agree as follows:

1. Scope of Work. Contractor shall perform the work and render the services described in the attached Exhibit A (the "Work"). Contractor shall provide all labor, services, equipment, tools, material and supplies required or necessary to properly, competently and completely perform the Work. Contractor shall determine the method, details and means of doing the Work.

2. Payment.

a. District shall pay to Contractor a fee based on:

The fee arrangement described on the attached Exhibit A.

The total fee for the Work shall not exceed \$47,147. There shall be no compensation for extra or additional work or services by Contractor unless approved in advance in writing by District. Contractor's fee includes all of Contractor's costs and expenses related to the Work.

b. At the end of each month, Contractor shall submit to District an invoice for the Work performed during the preceding month. The invoice shall include a brief description of the Work performed, the dates of Work, number of hours worked and by whom (if payment is based on time), payment due, and an itemization of any reimbursable expenditures. If the Work is satisfactorily completed and the invoice is accurately computed, District shall pay the invoice within 30 days of its receipt.

3. Term.

a. This Agreement shall take effect on the above date and continue in effect until completion of the Work, unless sooner terminated as provided below. Time is of the essence in this Agreement. If Exhibit A includes a Work schedule or deadline, then Contractor must complete the Work in accordance with the specified schedule or deadline, which may be extended by District for good cause shown by Contractor. If Exhibit A does not include a Work schedule or deadline, then Contractor must perform the Work diligently and as expeditiously as possible, consistent with the professional skill and care appropriate for the orderly progress of the Work.

b. This Agreement may be terminated at any time by District upon 10 days advance written notice to Contractor. In the event of such termination, Contractor shall be fairly compensated for all work performed to the date of termination as calculated by District based on the above fee and payment provisions. Compensation under this subsection shall not include any termination-related expenses, cancellation or demobilization charges, or lost profit associated with the expected completion of the Work or other such similar payments relating to Contractor's claimed benefit of the bargain.

EXHIBIT 2

4. Professional Ability of Contractor. Contractor represents that it is specially trained and experienced, and possesses the skill, ability, knowledge and certification, to competently perform the Work provided by this Agreement. District has relied upon Contractor's training, experience, skill, ability, knowledge and certification as a material inducement to enter into this Agreement. All Work performed by Contractor shall be in accordance with applicable legal requirements and meet the standard of care and quality ordinarily to be expected of competent professionals in Contractor's field.

5. Conflict of Interest. Contractor (including principals, associates and professional employees) represents and acknowledges that (a) it does not now have and shall not acquire any direct or indirect investment, interest in real property or source of income that would be affected in any manner or degree by the performance of Contractor's services under this agreement, and (b) no person having any such interest shall perform any portion of the Work. The parties agree that Contractor is not a designated employee within the meaning of the Political Reform Act and District's conflict of interest code because Contractor will perform the Work independent of the control and direction of the District or of any District official, other than normal contract monitoring, and Contractor possesses no authority with respect to any District decision beyond the rendition of information, advice, recommendation or counsel.

6. Contractor Records.

a. Contractor shall keep and maintain all ledgers, books of account, invoices, vouchers, canceled checks, and other records and documents evidencing or relating to the Work and invoice preparation and support for a minimum period of three years (or for any longer period required by law) from the date of final payment to Contractor under this Agreement. District may inspect and audit such books and records, including source documents, to verify all charges, payments and reimbursable costs under this Agreement.

b. In accordance with California Government Code section 8546.7, the parties acknowledge that this Agreement, and performance and payments under it, are subject to examination and audit by the California State Auditor for three years following final payment under the Agreement.

7. Ownership of Documents. All works of authorship and every report, study, spreadsheet, worksheet, plan, design, blueprint, specification, drawing, map, photograph, computer model, computer disk, magnetic tape, CAD data file, computer software and any other document or thing prepared, developed or created by Contractor under this Agreement and provided to District ("Work Product") shall be the property of District, and District shall have the rights to use, modify, reuse, reproduce, publish, display, broadcast and distribute the Work Product and to prepare derivative and additional documents or works based on the Work Product without further compensation to Contractor or any other party. Contractor may retain a copy of any Work Product and use, reproduce, publish, display, broadcast and distribute any Work Product and prepare derivative and additional documents or works based on any Work Product; provided, however, that Contractor shall not provide any Work Product to any third party without District's prior written approval, unless compelled to do so by legal process. If any Work Product is copyrightable, Contractor may copyright the same, except that, as to any Work Product that is copyrighted by Contractor, District reserves a royalty-free, nonexclusive and irrevocable license to use, reuse, reproduce, publish, display, broadcast and

EXHIBIT 2

distribute the Work Product and to prepare derivative and additional documents or works based on the Work Product. If District reuses or modifies any Work Product for a use or purpose other than that intended by the scope of work under this Agreement, then District shall hold Contractor harmless against all claims, damages, losses and expenses arising from such reuse or modification. For any Work Product provided to District in paper format, upon request by District at any time (including, but not limited to, at expiration or termination of this Agreement), Contractor agrees to provide the Work Product to District in a readable, transferable and usable electronic format generally acknowledged as being an industry-standard format for information exchange between computers (e.g., Word file, Excel spreadsheet file, AutoCAD file).

8. Confidentiality of Information.

a. Contractor shall keep in strict confidence all confidential, privileged, trade secret, and proprietary information, data and other materials in any format generated, used or obtained by the District or created by Contractor in connection with the performance of the Work under this Agreement (the "Confidential Material"). Contractor shall not use any Confidential Material for any purpose other than the performance of the Work under this Agreement, unless otherwise authorized in writing by District. Contractor also shall not disclose any Confidential Material to any person or entity not connected with the performance of the Work under this Agreement, unless otherwise authorized in advance in writing by District. If there is a question if Confidential Material is protected from disclosure or is a public record or in the public domain, the party considering disclosure of such materials shall consult with the other party concerning the proposed disclosure.

b. Contractor, and its officers, employees, agents, and subcontractors, shall at all times take all steps that are necessary to protect and preserve all Confidential Material. At no time shall Contractor, or its officers, employees, agents, or subcontractors in any manner, either directly or indirectly, use for personal benefit or divulge, disclose, or communicate in any manner, any Confidential Material to any person or entity unless specifically authorized in writing by the Agency or by order of a court or regulatory entity with jurisdiction over the matter. Contractor, and its officers, employees, agents, and subcontractors shall protect the Confidential Material and treat it as strictly confidential in accordance with applicable law, District policies and directives, and best industry security practices and standards.

c. If any person or entity, other than District or Contractor, requests or demands, by subpoena, discovery request, California Public Records Act request or otherwise, Confidential Material or its contents, the party to whom the request is made will immediately notify the other party, so that the parties may collectively consider appropriate steps to protect the disclosure of those materials. The parties agree to take all steps reasonably necessary to preserve the confidential and privileged nature of the Confidential Material and its content. In the event that the parties cannot agree whether to oppose or comply with a disclosure demand, the opposing party may oppose the demand at its sole cost and expense, in which event the party favoring disclosure will refrain from disclosing the demanded Confidential Material until such time as a final agreement regarding disclosure is reached or, if an agreement is not reached, a judicial determination is made concerning the demand.

d. Unless otherwise directed in writing by the District, upon contract completion or termination, Contractor must destroy all Confidential Materials (written, printed and/or

EXHIBIT 2

electronic) and shall provide a written statement to the District that such materials have been destroyed.

9. Compliance with Laws.

a. General. Contractor shall perform the Work in compliance with all applicable federal, state and local laws and regulations. Contractor shall possess, maintain and comply with all federal, state and local permits, licenses and certificates that may be required for it to perform the Work. Contractor shall comply with all federal, state and local air pollution control laws and regulations applicable to the Contractor and its Work (as required by California Code of Regulations title 13, section 2022.1). Contractor shall be responsible for the safety of its workers and Contractor shall comply with applicable federal and state worker safety-related laws and regulations.

b. Pre- and Post-Construction Related Work.

(1) Applicability. This subsection (b) applies if the Work includes labor performed during the design and pre-construction phases of construction, including, but not limited to, inspection and land surveying work, and labor performed during the post-construction phases of construction, including, but not limited to, cleanup work at the jobsite. (See California Labor Code section 1720(a).) If the Work includes some labor as described in the preceding sentence and other labor that is not, then this subsection (b) applies only to workers performing the pre-construction and post-construction work.

(2) Contractor shall comply with the California Labor Code provisions concerning payment of prevailing wage rates, penalties, employment of apprentices, hours of work and overtime, keeping and retention of payroll records, and other requirements applicable to public works as may be required by the Labor Code and applicable state regulations. (See California Labor Code division 2, part 7, chapter 1 (sections 1720-1861), which is incorporated in this Agreement by this reference.) The state-approved prevailing rates of per diem wages are available at <http://www.dir.ca.gov/oprl/DPreWageDetermination.htm>. Contractor also shall comply with Labor Code sections 1775 and 1813, including provisions that require Contractor to (a) forfeit as a penalty to District up to \$200 for each calendar day or portion thereof for each worker (whether employed by Contractor or any subcontractor) paid less than the applicable prevailing wage rates for any labor done under this Agreement in violation of the Labor Code, (b) pay to each worker the difference between the prevailing wage rate and the amount paid to each worker for each calendar day or portion thereof for which the worker was paid less than the prevailing wage, and (c) forfeit as a penalty to District the sum of \$25 for each worker (whether employed by Contractor or any subcontractor) for each calendar day during which the worker is required or permitted to work more than 8 hours in any one day and 40 hours in any one calendar week in violation of Labor Code sections 1810 through 1815.

c. Maintenance of Public Facility, Plant or Structure.

(1) Applicability. This subsection (c) applies if the Work includes "maintenance" work. "Maintenance" means (a) routine, recurring and usual work for the preservation, protection and keeping of any District facility, plant, building, structure, utility system or other property ("District Facility") in a safe and continually usable condition, (b) carpentry, electrical,

EXHIBIT 2

plumbing, glazing, touchup painting, and other craft work designed to preserve any District Facility in a safe, efficient and continuously usable condition, including repairs, cleaning and other operations on District machinery and equipment, and (c) landscape maintenance. "Maintenance" excludes (a) janitorial or custodial services of a routine, recurring or usual nature, and (b) security, guard or other protection-related services. (See California Labor Code section 1771 and 8 California Code of Regulations section 16000.) If the Work includes some "maintenance" work and other work that is not "maintenance," then this subsection (c) applies only to workers performing the "maintenance" work.

(2) Contractor shall comply with the California Labor Code provisions concerning payment of prevailing wage rates, penalties, keeping and retention of payroll records, and other prevailing wage and related requirements as may be required by the Labor Code section 1771 and applicable state regulations. The state-approved prevailing rates of per diem wages are available at <http://www.dir.ca.gov/oprl/DPreWageDetermination.htm>. Contractor also shall comply with Labor Code section 1775, including provisions that require Contractor to (a) forfeit as a penalty to District up to \$200 for each calendar day or portion thereof for each worker (whether employed by Contractor or any subcontractor) paid less than the applicable prevailing wage rates for any Work done under this Agreement in violation of the Labor Code, and (b) pay to each worker the difference between the prevailing wage rate and the amount paid to each worker for each calendar day or portion thereof for which the worker was paid less than the prevailing wage.

Indemnification. Contractor shall indemnify, defend, protect, and hold harmless District, and its officers, employees and agents from and against any claims, liability, losses, damages and expenses (including attorney, expert witness and Contractor fees, and litigation costs) that arise out of, pertain to, or relate to the negligence, recklessness, or willful misconduct of Contractor or its employees, agents or subcontractors. The duty to indemnify, including the duty and the cost to defend, is limited as provided in this section. However, this indemnity provision will not apply to any claims, liability, losses, damages and expenses arising from the sole negligence or willful misconduct of District or its employees or agents. Contractor's obligations under this indemnification provision shall survive the termination of, or completion of Work under, this Agreement.

10. Insurance.

Types & Limits. Contractor at its sole cost and expense shall procure and maintain for the duration of this Agreement the following types and limits of insurance:

<i>Type</i>	<i>Limits</i>	<i>Scope</i>
Commercial general liability	\$1,000,000 per occurrence	at least as broad as ISO CG 0001
Automobile liability	\$1,000,000 per accident	at least as broad as ISO CA 0001, code I (any auto)
Workers' compensation	Statutory limits	
Employers' liability	\$1,000,000 per accident	
Professional liability*	\$1,000,000 per claim	

EXHIBIT 2

*Required only if Contractor is a licensed engineer, land surveyor, geologist, architect, doctor or attorney.

a. Other Requirements. The general and automobile liability policy(ies) shall be endorsed to name District, its officers, employees, volunteers and agents as additional insureds regarding liability arising out of the Work. Contractor's coverage shall be primary and apply separately to each insurer against whom claim is made or suit is brought, except with respect to the limits of the insurer's liability. District's insurance or self-insurance, if any, shall be excess and shall not contribute with Contractor's insurance. Each insurance policy shall be endorsed to state that coverage shall not be canceled, except after 30 days (10 days for non-payment of premium) prior written notice to District. Insurance is to be placed with admitted insurers with a current A.M. Best's rating of A:VII or better unless otherwise acceptable to District. Workers' compensation insurance issued by the State Compensation Insurance Fund is acceptable. Contractor agrees to waive subrogation that any insurer may acquire from Contractor by virtue of the payment of any loss relating to the Work. Contractor agrees to obtain any endorsement that may be necessary to implement this subrogation waiver. The workers' compensation policy must be endorsed to contain a subrogation waiver in favor of District for the Work performed by Contractor.

b. Proof of Insurance. Upon request, Contractor shall provide to District the following proof of insurance: (a) certificate(s) of insurance evidencing this insurance; and (b) endorsement(s) on ISO Form CG 2010 (or insurer's equivalent), signed by a person authorized to bind coverage on behalf of the insurer(s), and certifying the additional insured coverage.

11. Entire Agreement; Amendment. The parties intend this writing to be the sole, final, complete, exclusive and integrated expression and statement of the terms of their contract concerning the Work. This Agreement supersedes all prior oral or written negotiations, representations, contracts or other documents that may be related to the Work, except those other documents (if any) that are expressly referenced in this Agreement. This Agreement may be amended only by a subsequent written contract approved and signed by both parties.

12. Independent Contractor. Contractor's relationship to District is that of an independent contractor. All persons hired by Contractor and performing the Work shall be Contractor's employees or agents. Contractor and its officers, employees and agents are not District employees, and they are not entitled to District employment salary, wages or benefits. Contractor shall pay, and District shall not be responsible in any way for, the salary, wages, workers' compensation, unemployment insurance, disability insurance, tax withholding, and benefits to and on behalf of Contractor's employees. Contractor shall, to the fullest extent permitted by law, indemnify District, and its officers, employees, volunteers and agents from and against any and all liability, penalties, expenses and costs resulting from any adverse determination by the federal Internal Revenue Service, California Franchise Tax Board, other federal or state agency, or court concerning Contractor's independent contractor status or employment-related liability.

13. Subcontractors. No subcontract shall be awarded nor any subcontractor engaged by Contractor without District's prior written approval. Contractor shall be responsible for requiring and confirming that each approved subcontractor meets the minimum insurance requirements specified in Section 11 of this Agreement. Any approved subcontractor shall

EXHIBIT 2

obtain the required insurance coverages and provide proof of same to District in the manner provided in Section 11 of this Agreement.

14. Assignment. This Agreement and all rights and obligations under it are personal to the parties. The Agreement may not be transferred, assigned, delegated or subcontracted in whole or in part, whether by assignment, subcontract, merger, operation of law or otherwise, by either party without the prior written consent of the other party. Any transfer, assignment, delegation, or subcontract in violation of this provision is null and void and grounds for the other party to terminate the Agreement.

15. No Waiver of Rights. Any waiver at any time by either party of its rights as to a breach or default of this Agreement shall not be deemed to be a waiver as to any other breach or default. No payment by District to Contractor shall be considered or construed to be an approval or acceptance of any Work or a waiver of any breach or default.

16. Severability. If any part of this Agreement is held to be void, invalid, illegal or unenforceable, then the remaining parts will continue in full force and effect and be fully binding, provided that each party still receives the benefits of this Agreement.

17. Governing Law and Venue. This Agreement will be governed by and construed in accordance with the laws of the State of California. The county and federal district court where District's office is located shall be venue for any state and federal court litigation concerning the enforcement or construction of this Agreement.

18. Notice. Any notice, demand, invoice or other communication required or permitted to be given under this Agreement must be in writing and delivered either (a) in person, (b) by prepaid, first class U.S. mail, (c) by a nationally-recognized commercial overnight courier service that guarantees next day delivery and provides a receipt, or (d) by email with confirmed receipt. Such notices, etc. shall be addressed as follows:

District:

Sacramento Suburban Water District
Attn: Dan Bills
3701 Marconi Avenue, Suite 100
Sacramento, CA 95821-5346
E-mail: dbills@sswd.org

Contractor:

Richardson & Company, LLP
Attn: Ingrid Sheipline
550 Howe Avenue, Suite 210
Sacramento, CA 95825
E-mail: isheipline@richardsoncpas.com

Notice given as above will be deemed given (a) when delivered in person, (b) three days after deposited in prepaid, first class U.S. mail, (c) on the date of delivery as shown on the overnight courier service receipt, or (d) upon the sender's receipt of an email from the other party confirming the delivery of the notice, etc. Any party may change its contact information by notifying the other party of the change in the manner provided above.

19. Signature Authority. Each party warrants that the person signing this Agreement is authorized to act on behalf of the party for whom that person signs. The Parties may execute and deliver this Agreement and documents necessary to perform it, including task orders and amendments, in any number of original or facsimile counterparts. When each Party has signed and delivered at least one counterpart to the other Party, each counterpart shall be

EXHIBIT 2

deemed an original and, taken together, the counterparts shall constitute one and the same document, which shall be binding and effective.

SACRAMENTO SUBURBAN WATER DISTRICT:

Dated: _____

By: _____
Kevin M. Thomas
Chair, Finance and Audit Committee

RICHARDSON & COMPANY, LLP:

Dated: 9/25/18

By: Ingrid M. Shepline
Ingrid Shepline
Managing Partner