

Agenda

Sacramento Suburban Water District Finance and Audit Committee

3701 Marconi Avenue, Suite 100
Sacramento, CA 95821

Monday, August 10, 2020
5:00 p.m.

In accordance with the California Department of Public Health's and the Governor's Executive Orders N-29-20 and N-33-20, the District's boardroom is closed and this meeting will take place solely by videoconference and teleconference. The public is invited to listen, observe, and provide comments during the meeting by either method provided for below. The Chairperson will call for public comment on each agenda item at the appropriate time and all votes will be taken by roll call.

For members of the public interested in viewing and having the ability to comment at the public meeting via Zoom, an internet enabled computer equipped with a microphone and speaker or a mobile device with a data plan is required. Use of a webcam is optional. You also may call in to the meeting using teleconference without video. Please use the following login information for videoconferencing or teleconferencing:

Join the meeting from a computer, tablet or smartphone:

<https://us02web.zoom.us/j/81654744319?pwd=VUZ3ZER0OW01V3dsNEpzMjBad3kwQT09>

Meeting ID: 816 5474 4319

Password: 084368

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Zoom uses encryption of data during Zoom meetings. The District uses a secure password to restrict access to scheduled meetings. The meeting host has control of content sharing, recording, and chat

Please mute your line.

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 Committee concerning an agenda item either before or during the Committee'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

Roll Call

Announcements

Public Comment

This is an opportunity for the public to comment on non-agenda items within the subject matter jurisdiction of the Committee. Comments are limited to 3 minutes.

Consent Items

The committee will be asked to approve all Consent Items at one time without discussion. Consent Items are expected to be routine and non-controversial. If any member of the Committee, staff or interested person requests that an item be removed from the Consent Items, it will be considered with the action items.

- 1. Minutes of the June 30, 2020 Finance and Audit Committee Meeting**
Recommendation: Approve subject minutes.

Items for Discussion and/or Action

- 2. New Auditing Firm**
Recommendation: Consider auditing firm proposals for the 2020 – 2024 year-end audits. Recommend the selected firm to the full Board for approval.
- 3. 2021 Budget Assumptions**
Recommendation: Review and discuss initial 2021 budget assumptions. Recommend key Budget assumptions to full Board.

Adjournment

Upcoming Meetings:

- Tuesday, August 11, 2020, at 4:00 p.m., Employee Benefits Ad Hoc Committee Meeting
- Monday, August 17, 2020, at 6:00 p.m., Regular Board Meeting
- Tuesday, August 25, 2020, at 4:00 p.m., Facilities and Operations Committee Meeting
- Monday, September 14, 2020, at 5:00 p.m., SSWD/DPMWD 2x2 Ad Hoc Committee

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I certify that the foregoing agenda for the August 10, 2020, meeting of the Sacramento Suburban Water District Finance and Audit Committee was posted by August 7, 2020 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

Minutes

Sacramento Suburban Water District
Finance and Audit Committee

Tuesday, June 30, 2020

Location:

Video and Audio Conference Only at 1-669-900-6833, or Zoom at Meeting Id #876 5208 7313

Call to Order – Videoconference/Audioconference Meeting

Chair Thomas called the meeting to order at 4:06 p.m.

Roll Call

Directors Present: Kevin Thomas.

Directors Absent: Robert Wichert.

Staff Present: General Manager Dan York, Director of Finance and Administration Jeff Ott, Assistant General Manager Mike Huot, and Heather Hernandez-Fort.

Public Present: Kathleen McPherson.

Announcements

None.

Public Comment

None.

Consent Items

1. Minutes of the June 16, 2020 Finance and Audit Committee Meeting

Chair Thomas approved the minutes of the June 16, 2020, Finance and Audit Committee meeting.

AYES:	Thomas.	ABSTAINED:	
NOES:		RECUSED:	
ABSENT:	Wichert.		

Items for Discussion and/or Action

2. Budget Policy PL – Fin 012

Jeff Ott (Mr. Ott) presented the staff report and reviewed the changes to the Policy.

Chair Thomas endorsed providing the Policy to the full Board with a recommendation of approving all changes.

3. Water Service Rates, Fees, and Charges Setting Policy PL – Fin 009

Mr. Ott presented the staff report and reviewed the changes to the Policy.

Chair Thomas endorsed providing the Policy to the full Board with a recommendation of approving all changes.

Adjournment

Chair Thomas adjourned the meeting at 4:17 p.m.

Dan York
General Manager/Secretary
Sacramento Suburban Water District

DRAFT



Agenda Item: 2

Date: August 3, 2020

Subject: New Auditing Firm

Staff Contact: Jeffery S. Ott, Director of Finance and Administration

Recommended Committee Action:

Consider auditing firm proposals for the 2020 – 2024 year-end audits. Select new audit firm. Recommend the selected firm to the full Board for approval.

Background:

Richardson & Company has served as the District’s auditors the past six years. Per the District’s “Engagement of Auditor Policy” (PL – Fin 001) (Policy), the District is required to “seek proposals from potential auditors no greater than every six years.” Accordingly, at the Committee meeting on May 21, 2020, the Committee approved distribution of a Request for Proposal (RFP) to interested auditing firms for audit services in the years 2020 through 2024. Subsequent to the meeting, the RFP was released and distributed to ten firms, with five responding.

The Policy further directs, “the 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...” Pursuant to this direction, the Committee is tasked with selecting an audit firm and recommending the selected firm to the full Board for approval.

Discussion:

While the selection of an external auditor is the responsibility of the Committee, staff reviewed the five proposals and provided an assessment of the firms based on the evaluation elements provided in the RFP, ranking the firms in 13 different categories as enumerated in the RFP.

After a thorough review, staff has determined that two firms stand-out in terms of the quality, experience and expertise of staff, time and attention devoted to the audit and price. The firms of Richardson & Company¹ and Maze & Associates separate themselves from the other firms in these areas (see Attachment 1).

As stated above, with the “Technical Quality” of the firm accounting for up to 60% of the eligible points to be awarded, the RFP was divided into 13 important technical areas for this section each with a weighting factor. More weighting was applied to firm and staff relevant

water experience. Price accounted for the remaining 40% of eligible points. Based on a review of the Technical Qualities, the firm of Richardson & Company¹ ranked highest, with Maze & Associates coming in second.

When price is factored in, the rankings amongst the firms remained fairly constant with the same two firms in the top two positions:

1. Richardson & Company¹
2. Maze & Associates

Based on staff's analysis, both of these firms would provide a professional level of service at a reasonable price to the District. Richardson & Company¹ may be selected again as the District's auditor if the engagement partner is changed. However, having a different audit firm with a different perspective and fresh view could be beneficial to the District.

¹ District's auditor from 2002 through 2006 and from 2014 through 2019.

Fiscal Impact:

Proposals ranged from \$42,310 - \$50,000 for fiscal 2020; and \$223,125 - \$257,800 over the next 5 years.

Strategic Plan Alignment:

Goal C: Ensure Fiscal Responsibility and Affordable Rates

To select an independent auditor to provide the District with unqualified audit opinions. The annual financial report is a benefit to District customers as it demonstrates the District's commitment to financial integrity and transparency.

Attachments:

1 – New Audit Firm RFP Scoring - Staff

Attachment 1

	Jeff		Lynn		Combined			
	Tech	Total	Tech	Total	Tech	rank	Total	rank
Gilbert	133	208	160	235	293	3	443	5
James Marta & Co	124	199	157	257	281	4	456	4
Lance, Scoll & Lunghard	107	232	141	266	248	5	498	3
Maze & Associates	158	258	174	274	332	2	532	2
Richardson & Company	165	290	188	313	353	1	603	1



Agenda Item: 3

Date: August 3, 2020

Subject: 2021 Budget Assumptions

Staff Contact: Jeffery S. Ott, Director of Finance and Administration

Recommended Committee Action:

Review and discuss the attached proposed 2021 key Budget assumptions as a reasonable starting point in preparing the 2021 Budget. Recommend key Budget assumptions to full Board.

Background:

Each year at the inception of the annual budget process, staff provides the Board with certain key assumptions that are necessary to begin the Budget preparation process. These assumptions are based on either historical experience or reflect current or expected economic and climatic conditions. While these assumptions are necessary in order to provide an initial draft Budget for Board review, such assumptions are subject to change at Board discretion throughout the Budget approval process.

Discussion:

Staff would like to review and discuss the initial 2021 Budget Assumptions with the Committee before presenting to the whole Board at the August 17th Board Meeting. Specifically, the changes in the budgeting for other post-employment benefits (OPEB) funding will be discussed.

Since the adoption of GASB 75 as of December 31, 2018 OPEB budgeting has combined the actuarially determined amounts for both prefunding and cash benefits into one budgeted amount. The actuarially determined amounts are calculated by the District's actuary each year for use in our annual financial report. The funding amounts are projected out for 10 years. The District uses these amounts to budget for the amount that needs to be contributed to the California Employers Retiree Benefit Trust (CERBT) to cover our prefunding and actual benefit costs. We fund the entire amount at one time in January of each year. At the end of each quarter, we compile our actual benefit costs and submit a reimbursement request to CERBT. In essence we are paying for our retiree benefits twice over the course of each quarter. Staff would like to adjust this process so that we fund the CERBT for the prefunding amount each January based on the actuarially determined prefunding amount but pay for actual benefit costs as they occur, which is monthly. For 2019 and 2020, actual benefit payments have been less than the actuarially determined amount so we are

2021 Budget Assumptions

August 3, 2020

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over-funding the CERBT. In 2019 the District overfunded the CERBT by \$9,000.00. For 2020 we are on track to over fund the CERBT by \$22,750.00.

Staff seeks direction from the Committee on this item or other budget assumptions so we can finalize the initial 2021 Budget Assumptions for presentation to the whole Board.

Fiscal Impact:

There is no fiscal impact related to this item.

Strategic Plan Alignment:

Goal C: Ensure Fiscal Responsibility and Affordable Rates

Attachments:

1 – 2021 Budget Assumptions

2 – Reserve Policy (PL – Fin 004)

Attachment 1

Key Assumptions	2019		2020		2021	
1 Rate Increase (Approved via Prop 218)		0.00%	Approved	5.00%	Proposed	4.00%
2 Change in SSWD Service Boundaries		None		None		None
3 New Service Connections (Growth)		0.52%		0.52%		0.52%
4 Water Production: (A)	<u>Increase</u>	<u>AF</u>	<u>Increase</u>	<u>AF</u>	<u>Increase</u>	<u>AF</u>
a. Water Supply Forecast Based on 5 Year Average		30,300 AF		29,900 AF		31,400 AF
b. SSA Surface Water (City) (B)	\$ 505.55	0 AF	\$ 120.00	7,700 AF	\$ 500.68	1,000 AF
c. SSA Surface Water (City at NO Cost)	\$ -	3,800 AF			\$ -	6,500 AF
d. SSA Surface Water (Electrical Cost to Lift City's Water)	\$ 14.73		\$ 15.72		\$ 17.00	7,500 AF
e. SSA Groundwater (Variable costs)	\$ 112.26	9,200 AF	\$ 132.59	6,250 AF	\$ 130.10	6,200 AF
f. NSA Surface Water (PCWA) (C)	\$ 40.67	12,000 AF	\$ 36.94	12,000 AF	\$ 38.79	12,000 AF
g. NSA Surface Water (Bureau)	\$ 23.40	12,000 AF	\$ 21.45	12,000 AF	\$ 22.52	12,000 AF
h. NSA Surface Water (SJWD Treatment)	\$ 192.37	12,150 AF	\$ 209.68	12,000 AF	\$ 220.16	12,000 AF
i. NSA Groundwater (Variable costs)	\$ 107.59	7,100 AF	\$ 114.84	6,050 AF	\$ 116.02	5,700 AF
j. NSA Bureau 215 Water	\$ 265.40	150 AF	\$ 290.01	0	\$ 304.51	0 AF
k. NSA Wheel Water to Cal-AM (Cost)		2,000 AF		2,000 AF	\$ 281.47	2,000 AF
l. NSA Wheel Water to Cal-AM (Revenue)	\$ (371.26)	2,000 AF	\$ (385.48)	2,000 AF	\$ (400.89)	2,000 AF
5 Anticipated Outside Water Sales, Net	None	None	Unknown	Unknown	Unknown	Unknown
6 Investment Yield		2.00%		2.15%		2.00%
7 Variable Debt Interest Rate		3.86%		3.86%		3.86%
8 Electrical Cost Increase		2.00%		3.75%		4.50%
9 COLA (D)				2.30%		0.80%
10 Merit Program				4.00%		5.00%
11 Construction Inflation (E)		8.00%		1.70%		1.80%
12 Health Care Cost (F)		2.00%		6.40%		4.32%
13 Tier 1 Pension Cost (% of Salaries)	\$ 582,000	23.00%	\$ 657,862	23.77%	\$ 760,000	24.32%
14 Tier 2 Pension Cost (% of Salaries)	\$ 18,000	17.10%	\$ 22,998	17.66%	\$ 29,000	18.20%
15 Tier 3 Pension Cost (% of Salaries)	\$ 900	7.30%	\$ 5,403	7.34%	\$ 5,600	7.89%
16 New Hires		3		-		1
17 Prefunding of Post Retirement Benefits (G)		\$892,480		\$ 908,433		\$ 482,497
18 Retiree Benefit Payments (G)		\$ -		\$ -		\$ 450,254
19 Reserve Funds (Uses)		None		None		None
Footnotes:						
(A) SSA = South Service Area; NSA = North Service Area						
(B) City Rate at \$120/AF on a trial basis of 9,500 AF from Oct -2019 to Sept 2020. Assume City will not extend this trial rate (\$120.00) for 2021. Budgeted at current rate.						
(C) 2020 Take-or-Pay was reduced to 8,000 AF. Current contract is for 12,000 AF.						
(D) District is now West - Class Size B/C (2.5 million or less). Previously District was classified as West - Class A						
(E) 20 Cities CCI Index, Source: ENR						
(F) Same as prior year, Western Health Advantage						
(G) Actuarially determined prefunding amount is \$482,497 in 2021 and does not include retiree premiums (2021 actuarial estimate \$450,254) which will be broken out seperately (item 18).						

Sacramento Suburban Water District

Reserve Policy

Adopted: August 18, 2003

Approved with Changes: June 17, 2019

100.00 Purpose of the Policy

The District will maintain reserve funds where required by law, ordinance or bond covenant, and revenue stability, so as to provide the necessary cash flow for normal and ordinary operations, while also providing the ability to address economic downturns and limited system emergencies.

The primary purposes of this policy are: to establish a reserve fund level that is specific to the needs and risks of the District; to identify when and how reserve funds are utilized and replenished; and to recognize the long-term nature of such funds and their relationship to current and projected customer rates. The District's financial reserve fund comprises various funds established for specific purposes and to reduce certain risks. Collectively, these funds enable the District to operate in a prudent manner, while allowing for transparency of reserve fund balances.

200.00 Policy**200.10 Fund Classification Types**

The District shall maintain three fund classifications that collectively comprise the District's reserve fund balance. Fund classifications are a hierarchy based primarily on the extent to which the District is bound to observe constraints imposed upon it. The fund classifications are - Restricted funds, Committed funds and Assigned funds, with distinction among the funds based on the relative strength of the constraints that control how amounts can be spent.

Restricted funds include amounts that can be spent only for specific purposes stipulated by law or third parties, such as grantors or creditors. Committed funds include amounts that can be used only for specific purposes as determined by Board action. Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted or committed.

200.20 Restricted Funds Classification

Restricted funds are those financial assets subject to enforceable third party constraints, such as those imposed by creditors, grantors, laws or regulation.

There are no designated restricted funds at this time.

200.30 Committed Funds Classification

Committed funds are those financial assets identified by the Board for specific purposes as determined by Board resolution or ordinance. Such financial assets are to be utilized only as directed by the Board.

Facilities Reimbursement Fund

As established by the Board in the District's Regulations Governing Water Service (Regulations), the District will retain a percentage of Facility Development Charges (FDC) collected each fiscal year for the purpose of repaying individuals or businesses who were required to install up-sized lines or extension facilities at the request of the District. Disbursements will be made in accordance with the Regulations, including the release of unexpended funds into the District's unrestricted net position.

200.40 Assigned Funds Classification

Assigned funds are those financial assets determined necessary to be retained for specific risk-mitigation purposes as determined by the Board as needs arise.

Emergency/Contingency Fund

Financial assets held for purposes of continued operations during times of severe economic distress due to events that require an immediate and/or significant use of cash. Such severe economic situations may include otherwise insurable events for which the timely receipt of cash may be delayed. The District shall target a balance of three percent (3%) of its prior year-end total assets in this fund. Conditions for utilization of such reserves and a plan for fund replenishment will be approved by the Board.

Prior to amounts being expended from this fund, the District shall establish a contingency plan that addresses, at a minimum:

1. The reason(s) for expenditures from this fund.
2. Amounts expected to be expended.
3. The funds replenishment timeline and funding source.

Operating Fund

Financial assets held primarily in the form of cash and cash-equivalents for the purpose of debt avoidance due to unexpected expenditures of a non-recurring nature or to meet unexpected increases in operating costs. The District shall target a balance in short-term investments and/or cash of 180 days (50%) of its current year's budgeted annual expenditures for operating costs and debt service in this fund. The minimum balance in short-term investments and/or cash shall be 90 days (25%) of its current year's budgeted annual expenditures for operating costs and debt service in this fund. Conditions for utilization of these reserves and a plan for fund replenishment will be determined by the Board at annual budget time.

The operating fund reflects the timing difference between billing for revenues and payment of expenses. The target level is a financial measure or guideline. If the fund level drops below the twenty-five percent target balance, that is a sign for staff to review the fund and, if necessary, bring recommendations to the Board to assure the fund will not continue to decline.

Rate Stabilization Fund

Financial assets held for purposes of managing cost variability in obtaining, treating and delivering potable surface water and groundwater. This Fund is focused on consumption fluctuations related to customer demand and purchasing of surface water as part of the District's conjunctive use efforts. Consumption charges established in the rate setting process forecast customer demand based on a repeat of average, recent climactic conditions. Financial fluctuations occur when situations vary from the assumption. The District shall target a balance of thirty-five percent (35%) of its expected upcoming year consumption revenues in this fund. Conditions for utilization of such reserves and a plan for fund replenishment will be directed by the Board at annual budget time.

Interest Rate Risk Management Fund

This fund is derived from earnings based on financial assets held as short-term investments pursuant to interest rate risk exposure assumed by the District upon the issuance of floating-rate debt. The amount of investments from which earnings are derived and accumulated will be determined at the time of debt issuance. Earnings on such investments will be used to repay a portion of the interest expense on the outstanding floating-rate bond or COP as long as the bond or COP is subject to interest rate risk exposure. This fund will be reduced in line with the amortized balance of the interest-rate swap(s).

Grant Fund

Financial assets held for purposes of funding the "local cost share" and advance payment of eligible reimbursable costs on capital projects funded partially from grant awards. As eligibility for potential grant awards requires the District to demonstrate financial viability to fund anticipated project costs, the District shall maintain a minimum balance equal to the combined sum of anticipated costs for those projects considered grant eligible in the upcoming biennial period. Conditions for utilization of such reserves and a plan for fund replenishment will be determined at the time of grant award.

Capital Asset Fund

Financial assets held for purposes of funding District capital asset replacements and capital projects necessary to meet regulatory requirements and/or system reliability needs. The District shall target a fund balance based on the annualized average of the future five years of CIP expenditures. The minimum balance in this fund shall be equivalent to the prior year's annual depreciation expense. Well property acquisition amounts will be funded as defined in the section "Well Property Acquisition Fund." The District shall target a balance to sufficiently fund anticipated capital improvement

project replacement cost deviations above the CIP funding level. Fund replenishment will be determined by the Board periodically through the rate setting process and annually through the budget process.

Well Property Acquisition Fund

This Fund is a component of the Capital Asset Fund. Amounts established for this Fund shall be established through the annual budget process. The District shall target a balance to sufficiently fund anticipated property acquisitions. Fund replenishment will be determined by the Board periodically through the rate setting process and annually through the budget process.

Facilities Development Charge Fund

Financial assets held for expenditure on growth/capacity-related capital asset projects only. Amounts deposited into this fund come from unexpended facility development charges collected from developers (see related Facilities Reimbursement Fund in section 200.30 above.) These growth/capacity-related capital asset projects form the cost-basis and legal nexus for the establishment and collection of the Facility Development Charges. This fund is dependent upon customer growth. Therefore, there is no prescribed target or minimum balance.

300.00 Disposition of “One-Time” Revenues

“One-time” revenues are revenues of an unusual or infrequent nature which are likely not the result of the District providing services and producing and delivering goods in connection with the District’s principal ongoing operations (e.g. legal settlement). Unless specifically earmarked by Board action otherwise, “one-time” revenues should be transferred to the appropriate reserve fund which best represents the reason for the “one-time” revenue.

400.00 Target Funding Level

A summary of reserve fund classifications and funding levels is shown below:

Fund Classification	Funding Level
Facilities Reimbursement Fund	20% of FDC charges collected annually less developer payouts.
Emergency/Contingency Fund	3% of prior-year end total assets.
Operating Fund	50% of annual operating and debt service expenditures.
Rate Stabilization Fund	35% of water consumption revenues.
Interest Rate Risk Management Fund	Accumulated earnings on short-term investments above 3.283% on the unhedged portion of variable-rate debt.

Grant Fund	Sufficient to pay for “local cost share” on all outstanding and applied-for grants.
Capital Asset Fund	Based on the annualized average of the future five years of CIP expenditures.
Facilities Development Charge Fund	Remaining amounts of FDC Charges after amounts used by Facilities Reimbursement Fund expended. For new infrastructure.

500.00 Authority

The General Manager is responsible for the appropriate accounting and regular reporting of the District’s reserve fund balance. Board oversight will be accomplished through regular reporting and review of this Policy.

600.00 Procedure

District staff will maintain procedures for each fund classification, to be approved by the General Manager, and in conformance with this Policy.

In any case where the reserves are drawn below target minimums, a report shall be developed containing the reasons for withdrawals and any impacts to programs or rates due to such withdrawals. If reserves are depleted, the reserves shall be replenished over a maximum five (5) year period to the established or re-established target as directed by the Board.

Maintenance of minimum reserves should not, on its own, trigger the need for a rate adjustment. Rates will be reviewed after two consecutive years of revenue dropping below established minimums balances, or diminishing reserves as a result of covering unanticipated costs.

700.00 Policy Review

This Policy will be reviewed annually as part of the budget adoption process.