Claire McAuliffe, President
Corinne W. Wiley, Vice President
V. William Brady, Secretary

Catharine Benediktsson, Director
Roy Fedotoff, Director

Sanitary District No. 5 of Marin County
Finance & Fiscal Oversight Committee Meeting Minutes
at Sanitary District No. 5 of Marin County Meeting Room
2001 Paradise Drive, Tiburon, California
Thursday, April 29, 2010 10:00 a.m.

CALL TO ORDER at 10:05 a.m.

I. ROLL CALL:

Directors present:	Corinne W. Wiley, Chair Claire McAuliffe
Staff present:	Robert L. Lynch, District Manager Samantha Miller, Office/Finance Manager
Advisory Group present:	Bob McCaskill Paul Garbarini

II. PUBLIC COMMENTS: None

III. NEW BUSINESS:

a. Reserve Policy (attached)

Mgr. Miller explained that, during the District's FY 2008-2009 audit, she analyzed in great detail with the District's auditor, Mr. Terry Krieg, the problems with the District's current reserve policy. Together they developed recommendations for a new reserve policy, which Mgr. Miller has built upon and expanded. She explained that one problem with the District's current reserve policy is that it states dollar amounts that should be in each reserve account. Since these reserve levels are unrealistic and the District never has these specific balances in each reserve account, this means the District is never actually following its own reserve policy. None of the listed dollar amounts agree with the District's actual trial balances. Furthermore, some of the reserve accounts listed in the current reserve policy are not necessary, and some of these accounts do not currently exist in the District's general ledger, meaning the District is not following its current reserve policy. In addition, the current reserve policy does not clearly define a specific method of funding for each reserve account that is consistent with the District's actual financial practices.

Mgr. Miller recommended to the Finance Committee that the District adopt a new reserve policy at the end of this fiscal year; the Committee agrees with this recommendation. Mgr. Miller explained that a revised reserve policy needs to identify an updated, shorter list of fund/reserve accounts needed, define the purpose of each fund/reserve, state specifically how each will be funded, and include the specific authority required to transfer balances between any fund/reserve accounts. Specific account balances (dollar amounts) should not be listed in the reserve policy. Instead, the reserve policy should state that the target balances will be based on the current fiscal year's budgeted costs and the long-term capital improvement program plan.

Mgr. Miller reviewed with the Finance Committee and Advisory Group the recommended reserve policy matrix she created. In this matrix, she recommended that the District have the following accounts: Operating Account, Capital Account, Capital Replacement Reserve, and Capital Expansion (Connections) Reserve. The Operating Account would be used to provide working capital for the current fiscal year's operating expenses, the Capital Account would provide working capital for the current fiscal year's capital projects, and the Capital Replacement Reserve would be a reserve for future capital projects (based on the long-term capital improvement program plan) and emergencies. The Capital Expansion (Connections) Reserve is a separate account that is funded with connection fee revenue and must be used for growth-related capital projects. The Finance Committee and Advisory Group agreed with these recommendations, but they requested that Mgr. Miller investigate with Mr. Krieg whether the District could combine the Capital Expansion (Connections) Reserve with the Capital Replacement Reserve, instead of keeping them separate. Mgr. Miller will investigate this as there are legal restrictions for the District's connections revenue.

Mgr. Miller's recommended reserve policy matrix states that, at the beginning of each fiscal year, nine months (or 75%) of the current fiscal year's budgeted operating costs would be kept in the Operating Account (this would be the target balance, which would cover the nine-month dry period before the District receives revenue from the County to replenish this account), and 100% of the current fiscal year's budgeted capital costs would be kept in the Capital Account (to cover the entire year's capital projects). She recommended that sewer service charge and property tax revenue be used to fund the Operating and Capital Accounts, and all remaining revenue (after the Operating and Capital Accounts have been funded to meet their target balances) be used to fund the Capital Replacement Reserve. Board approval would be required for any transfers out of the reserve accounts. The Finance Committee and Advisory Group agreed with these recommendations, but they would like to see the Capital Account have 110% of the current fiscal year's budgeted capital costs, to leave a little cushion.

After discussing the remaining details of Mgr. Miller's recommended reserve policy matrix, the Finance Committee and Advisory Group worked together with Mgr. Miller on some of the wording and notes. They also agreed the new reserve policy should specifically state that future plant replacement will be debt funded and the reserves are not meant for that purpose. The Finance Committee directed Mgr. Miller to update her reserve policy matrix with the additions and revisions agreed upon during this meeting and present it at the next Finance Committee meeting with the Advisory Group. This will serve as a basis for drafting the revised reserve policy resolution.

b. Financial Policies (attached)

The Committee discussed the recommendations from Mgr. Miller for additional written financial policies the District should adopt. During the District's FY 2008-09 audit, Mgr. Miller also discussed in great detail the District's current financial policies with Mr. Krieg; together, they developed recommendations. Mgr. Miller recommended to the Finance Committee that the District adopt additional formal written financial policies to address the following specific issues (some of which are currently in practice at the District but are not adopted as formal written financial policies yet):

1. The current practice of calculating zone allocation percentages: Mgr. Miller explained the District needs to adopt a written financial policy for the District's current practice. The current method was recommended by Mr. David Perotti, CPA during his internal audit, and it was adopted and authorized by the Board at a Board meeting, but it is not yet in formal written policy. The current practice involves using influent flow data for each zone from the prior calendar year; for example, the percentage of flow coming from Belvedere during the last calendar year represents the Belvedere zone allocation percentage to be used for the next fiscal year's expenses. The Finance Committee agreed with this recommendation that the Board adopt this current, Board-approved practice as a formal written financial policy.

2. The District's depreciation allocation methods and policies: Mgr. Miller explained the District needs to adopt a formal policy (capitalization policy) regarding the allocation of depreciation for external financial reporting purposes and determine if allocations of depreciation on joint-use facilities (joint capital assets) are to be funded by cash transfers from the Belvedere zone to the Tiburon zone. Currently, the Belvedere zone does not fund its share of depreciation by cash transfers to the Tiburon zone, since it pays its share of the joint capital expenditures in the first place (at the time of purchase). The Finance Committee recommends that the Board adopt a formal written policy for the District's current practice, stating that the Belvedere zone does not need to fund its share of depreciation by cash transfers to the Tiburon zone, since it pays its share of the joint capital expenditures at the time of purchase.

3. Internal control over sewer service charge billing adjustments: Mgr. Miller explained the District needs to develop policies and procedures concerning how sewer service charge billing adjustments are to be approved and documented (adjustments should require written documentation and approval by the District Manager or the Finance Committee for any adjustments over a certain dollar amount, for example). The Finance Committee agreed with this recommendation. The Committee recommends that the Board adopt a formal written policy stating that the District Manager is required to approve in writing all adjustments (of any amount) to sewer service charge billings, the Finance Committee is required to approve any adjustments over $5,000, and the entire list of adjustments for the year should be brought to the Finance Committee for review and approval at the end of each fiscal year.

4. Lack of separation of duties: Mgr. Miller explained that an office assistant could help with some of her duties to increase separation of duties and lower the District's associated risk, and a District Treasurer could be appointed to review bank account reconciliations (this could be the District Manager). The Finance Committee recommends that the Board appoint a District Treasurer to review the District's bank account reconciliations; the Committee recommends that the District Treasurer be the Finance Committee chair (or designee).

c. GASB 45 – OPEB Liability & Funding (attached)

Mgr. Miller explained the GASB 45 requirements for OPEB (Other Post-Employment Benefits: healthcare for retirees) liability and funding. The Committee agrees with Mgr. Miller's recommendation that the District begin to fully fund its annual OPEB costs at the end of this current fiscal year (FY 2009-2010). By doing so, the District will not have to book a liability for the unfunded OPEB costs at the end of this fiscal year (according to the new GASB 45 requirements). This will also save the District money in the long-term, instead of continuing with the pay-as-you-go approach. In order to begin fully prefunding the District's annual OPEB costs, the District would participate in the CalPERS California Employers' Retiree Benefit Trust Fund (CERBT). Historically, CalPERS gets higher interest earnings than LAIF (where the District currently invests its money), so prefunding our OPEB liabilities through investing in CERBT will save the District money in the long-term. The Finance Committee recommends that the Board take action at the May 11, 2010 regular Board meeting to authorize and execute the CERBT Program Agreement and Election to Prefund OPEB through CalPERS, as well as adopt the Delegation of Authority to Request Disbursements Resolution; both of these actions are required in order to participate in the CERBT Program. The Committee would also like to investigate reducing or eliminating retiree health benefits for future employees.

d. Zone Allocation Percentages for FY 2010-2011 Budget (attached)

The Committee reviewed and approved the new zone allocation percentages for FY 2010-2011, which will be used in the FY 2010-2011 Budget. For main plant capital and operations/maintenance costs that will be shared between Belvedere and Tiburon, the new allocation percentages will be 35.33% for Belvedere and 64.67% for Tiburon. For District-wide costs that will be shared between Belvedere, Tiburon, and Paradise Cove (such as salaries, Directors' fees, etc.), the new allocation percentages will be 34.7% for Belvedere, 63.52% for Tiburon, and 1.78% for Paradise. These allocation percentages were calculated based on 2009 influent flow readings for each zone. This is the method that was recommended by Mr. David Perotti, CPA and adopted and authorized by the Board in FY 2008-2009. For the property tax zone allocation percentages for Tiburon and Paradise Cove, the new allocations are 96.32% for Tiburon and 3.68% for Paradise Cove. This is based on equivalent dwelling units (EDUs), which is appropriate to use instead of flow for allocating property tax revenue. This method was also recommended by Mr. Perotti and adopted and authorized by the Board in FY 2008-2009.

e. Marin Energy Authority – Recommendation for Opting In/Out

The Committee discussed the Marin Energy Authority (MEA) and whether the District should opt in or out. The Committee requested that Mgr. Lynch email the District's current PG&E rate structure to Mr. McCaskill so he can compare it to the MEA rate structure. After making this comparison, the Finance Committee will bring this item to the entire Board for the Board to make a decision about whether to opt in or out based on the financial costs of each option.

f. Funding Options:

i) CA State Revolving Loan Fund Program

The Committee briefly discussed their interest in the California State Revolving Loan Fund Program. District staff is still gathering information about this program and will report back to the Finance Committee after further investigation.

ii) Bond Issuance

The Committee discussed the possibility of using bonds as a funding vehicle to help Paradise Drive residents hook up to the Paradise Drive Sewer Line Extension. The Finance Committee will continue to investigate this option.

g. Commercial Sewer Service Charges (attached)

The Committee discussed the District's current ordinances outlining the method for calculating commercial sewer service charges. They plan to re-examine the District's commercial sewer service charge calculations with the Advisory Group in the beginning of the next fiscal year. The Committee would like District staff to request a proposal from Mr. John Farnkopf for helping with this analysis in the fall – to compare how other districts calculate their commercial sewer service charges and re-evaluate our current method for determining both commercial and residential sewer service charges. There is not sufficient time to make any changes to the FY 2010-2011 commercial sewer service charge calculations; if any changes are to be made, they would go into effect for FY 2011-2012 charges.

h. Directors' Requests of Finance Committee (attached):

i) Sanitary Sewer Flow Monitoring Plan (Scope, Budget, & Schedule) – RFP for Inflow & Infiltration Control Flow Monitoring Study (attached)

The Committee reviewed the RFP for the Inflow & Infiltration (I&I) Control Flow Monitoring Study. Mgr. Lynch noted this project will be downsized from this current proposal, and the RFP will be modified accordingly. He added this I&I Control Flow Monitoring Study will be a much more effective way to locate I&I than smoke testing.

ii) Schedule of Budget Meetings (attached)

The Committee reviewed the schedule of budget meetings for the development of the FY 2010-2011 Budget. These dates were presented to the entire Board at the April 13, 2010 regular Board meeting, as well.

iii) WWTP Brochure for Visitors

Dir. Fedotoff had requested that the Finance Committee consider producing an inexpensive WWTP brochure for visitors, guided tours, school children visits, etc. The Finance Committee will forward this item to the Communications Committee.

i. Warrants for April 2010 (attached)

The Committee reviewed and approved warrants for April 1 - 28, 2010, #3737 through 3799, in the amount of $124,728.67.

j. Financial Reports for April 2010 (attached)

The Committee reviewed and approved the Financial Reports for April 1 - 28, 2010.

The Committee recommended that the District use Mr. Terry Krieg for the FY 2009-2010 audit; Mgr. Lynch and Mgr. Miller recommend this, as well. The Finance Committee and District staff were very pleased with Mr. Krieg's previous audit work for the District. The Committee would like District staff to request a letter of engagement from Mr. Krieg to be presented to the entire Board for authorization and approval at the May 11, 2010 regular Board meeting.

Recorded by Samantha Miller