



NOTICE OF BUDGET & FINANCE COMMITTEE MEETING

Responsible for the review of District finances including: rates, fees, charges and other sources of revenue; budget and reserves; audit; investments; insurance; and other financial matters.

NOTICE IS HEREBY GIVEN that the San Lorenzo Valley Water District has called a meeting of the Budget & Finance Committee to be held on **Wednesday, February 17, 2021, 2:00 pm**, via video/tele conference.

<https://global.gotomeeting.com/join/583768805>

You can also dial in using your phone.
(For supported devices, tap a one-touch number below to join instantly.)

United States (Toll Free): 1 866 899 4679
- One-touch: <tel:+18668994679,,583768805#>

United States: +1 (571) 317-3116
- One-touch: <tel:+15713173116,,583768805#>

Access Code: 583-768-805

AGENDA

1. Convene Meeting/Roll Call
2. Oral Communications
This portion of the agenda is reserved for Oral Communications by the public for items which are not on the Agenda. Please understand that California law (The Brown Act) limits what the Board can do regarding issues raised during Oral Communication. No action or discussion may occur on issues outside of those already listed on today's agenda. Any person may address the Committee at this time, on any subject that lies within the jurisdiction of the District. Normally, presentations must not exceed five (5) minutes in length, and individuals may only speak once during Oral Communications. Any Director may request that the matter be placed on a future agenda or staff may be directed to provide a brief response.

3. New Business:
Members of the public will be given the opportunity to address each scheduled item prior to Committee action. The Chairperson of the Committee may establish a time limit for members of the public to address the Committee on agenda items.
- A. CAPITAL ASSET MANAGEMENT PLAN UPDATE
Discussion and possible action by the B & F Committee regarding an update of CAMP.
- B. DISTRICT INVESTMENT OPTIONS
Discussion and possible action by the B & F Committee regarding District Investment options.
- C. BUDGET PROCESS
Presentation on the Budget Process.
4. Old Business: None
Members of the public will be given the opportunity to address each scheduled item prior to Committee action. The Chairperson of the Committee may establish a time limit for members of the public to address the Committee on agenda items.
5. Informational Material:
Here is a link <https://www.slvwd.com/node/290/minutes> to previous Budget & Finance Committee meeting minutes.
6. Adjournment

Agenda documents, including materials related to an item on this agenda submitted to the Committee after distribution of the agenda packet, are available for public inspection and may be reviewed at the office of the District Secretary, 13060 Highway 9, Boulder Creek, CA 95006 during normal business hours. Such documents may also be available on the District website at www.slvwd.com subject to staff's ability to post the documents before the meeting.

Certification of Posting

I hereby certify that on February 12, 2021 I posted a copy of the foregoing agenda in the outside display case at the District Office, 13060 Highway 9, Boulder Creek, California, said time being at least 72 hours in advance of the meeting of the Budget & Finance Committee of the San Lorenzo Valley Water District in compliance with California Government Code Section 54956.

Executed at Boulder Creek, California, on February 12, 2021.

Holly B. Hossack, District Secretary
San Lorenzo Valley Water District

M E M O

TO: Budget & Finance Committee

FROM: Director of Finance & Business Services

SUBJECT: CAMP Update

DATE: February 17, 2021

RECOMMENDATION:

It is recommended the Committee remove this from the regular recurring bi-monthly update until it is prioritized as a District priority.

BACKGROUND:

In July a presentation on the planned road map was accepted to help guide the District to help develop a strategic plan → capital asset management plan (CAMP) → financial plan.

1. Strategic Plan - I don't believe the draft Strategic Plan has been presented yet.
 - a. Timeliness of this will impact the others.
2. CAMP –
 - a. At a previous meeting, we explained how we found discrepancies with the systems fixed asset listing and actual assets.
 - i. We believe it is isolated to the older or inherited assets that did not have a value at that time to come on the books, or it was simply done prior to when assets were tracked in this manner.
 - ii. The solution was we went through our fixed asset listing line by line to get better descriptions, identify assets no longer in use etc.
 - iii. Finance is waiting for what we are considering the master listing from Operations, listing out all of the tanks, pumps, booster stations etc.
 1. From there we will match up the ones we have with their asset ID and populate as much known information as possible.
 2. These will then be grouped and gone over again for forecasting attributes.
 3. It is estimated that once we get the listing, it will take a month to match and build out.
 - iv. The Water System Master Plan, which will have the key pipeline information for projecting out that piece, is expected to be ready in April 2021.
3. Financial Plan – projections are in place for the more fixed expenditures – need action items from the Strategic Plan and CAMP to complete.

Overall, the process has not moved anywhere since the last update. Finance has not received any new information, being 2 months past due from when last promised. Given the lack of information, and an April date for the Master Plan, staff feels this project should be put on pause until the District prioritizes this as a priority. These should be powerful guiding documents for the District, it is recommended forward progress continues to be made.

If staff cannot provide the needed information, it is recommended the District utilize a consultant to hopefully assist in figuring out a different way to accomplish a useable document for the District to formulate a capital asset management plan.

Thus far, tank listings have been provided with the high level analysis as follows:

- Deferred Tank Maintenance \$8.4M:
 - \$5M in past due painting and coatings
 - \$3.4M in redwood tanks due to be replaced
 - The number above excludes Lompico tanks

M E M O

TO: Budget & Finance Committee

FROM: Director of Finance & Business Services

SUBJECT: District Investment Options

DATE: February 17, 2021

RECOMMENDATION:

It is recommended the Committee discuss the different accounts and investment options the District has and considers these for future purposes.

BACKGROUND:

Attached is a copy of the District's current investment policy.

The District currently has all funds held in either the regular checking account, LAIF or with the Santa Cruz County Investment Pool.

In the past the District had investments, mainly CD's, held with Morgan Stanley. The Prop 50 Emergency Intertie project was mainly funded by cash reserves. This partially drove the District in being out of compliance with our investment policy. The remaining CD's were directed to mature and moved to general funds.

In addition to the investment fund policy, there are additional ways the District can utilize any excess reserves. For example, the District established a trust fund for the OPEB liability and a similar fund could be set-up for the Pension liability. Additionally, funds could be used to pay down or re-structure the pension liability.

Article VI. Finances

Section 6.01 Investments

(a) Introduction

The purpose of this Article is to establish formal policies for the prudent investment of the District's unexpended cash. The main objectives of this Article are:

1. Establish guidelines for the investment of all funds belonging to or in the custody of the District in a manner conforming to all state and local statutes governing the investment of public funds, and
2. Provide an optimal combination of safety, liquidity and yield for District Investments.

(b) Basic Policies

- (i) **PRUDENCE:** District funds shall be invested under the "prudent investor standard" (California Government Code Section 53600.3) which essentially states that all investments shall be made with care, under circumstances then prevailing, that a prudent person acting in like capacity would use with funds of like character to safeguard capital and maintain liquidity.
- (ii) **DELEGATION OF AUTHORITY:** Authority to manage the District investment program is delegated to the District Manager. The District Manager is encouraged to consult with the Budget and Finance Committee in between monthly reports to the Board as required by this Article.

No person may engage in an investment transaction except as provided under this Article.

- (iii) **OBJECTIVES:** The objectives of the District's investment activities in priority order are as follows:

1st **SAFETY** – Safety of principal is the foremost objective of the investment program. The District's investment portfolio shall be designed and undertaken in a manner that seeks to ensure the preservation of the principal invested.

2nd **LIQUIDITY** – The District's investment portfolio shall be designed to remain sufficiently liquid to enable the District to meet all operating requirements which might be reasonably anticipated. The liquid needs of the District shall be commensurate with the constraints of anticipated cash flow requirements.

3rd **RETURN ON INVESTMENTS** – The District's investment portfolio shall be designed with the objective of attaining the maximum possible rate of return commensurate with the District's investment risk constraints and the cash flow characteristics of the portfolio.

- 4th PERFORMANCE STANDARDS: Investments shall only be made as allowable by law with specific reference to California Government Code Section 53600, et seq., and any other applicable provisions of law.
- (iv) AUTHORIZED AND ACCEPTABLE INVESTMENTS: District funds shall be invested only in the following investment instruments and within any limits indicated:
- 1st LAIF – The Local Agency Investment Fund (LAIF) is an investment pool established and controlled by the State of California to afford smaller agencies the benefits of a large investment portfolio, including higher interest rates and greater diversification.
 - 2nd COUNTY OF SANTA CRUZ INVESTMENT POOL – This is an investment pool established and controlled by the County of Santa Cruz to afford smaller agencies the benefits of a larger investment portfolio, including higher interest rates and greater diversification. Authority for the County of Santa Cruz Investment Pool is delegated to the County of Santa Cruz Treasurer.
 - 3rd CERTIFICATES OF DEPOSIT – These are receipts for funds deposited in a bank, or savings and loan, or broker deposits for a specific term and rate of interest. The principal and accrued interest shall be insured by the Federal Deposit Insurance Corporation (FDIC). The principal and accrued interest in any one insured depository institution shall not exceed the limit amount insured by FDIC.
 - 4th PASSBOOK SAVINGS ACCOUNTS – This is a regular liquid savings account. The principal and accrued interest shall be insured by the Federal Deposit Insurance Corporation (FDIC). The principal and accrued interest in any one insured depository institution shall not exceed the limit amount insured by FDIC.
 - 5th U.S. TREASURY OBLIGATIONS – These are negotiable debt obligations of the U.S. Government which guarantee that all interest and principal payments will be paid on time. Among these are Treasury Bills, Notes and Bonds.
 - 6th With Board approval, repurchase bonds issued by the District or accelerate payback of loans incurred by the District, including bonds payable solely from a revenue producing property owned, controlled or operated by the District.
 - 7th Registered warrants, treasury notes or bonds of the State of California, including bonds payable solely from a revenue producing property owned, controlled or operated by the State of California, or by a department, board, agency or authority of same.
- (v) DIVERSIFICATION: The purpose of diversification is to reduce overall portfolio risks while attaining market yields. The District will diversify its investments by security type and institution, especially when there is no decrease in yield. Pursuant to California Government Code Section 53601(i) certificates of deposit invested outside of an authorized pool shall not exceed thirty percent (30%) of the District's total investment portfolio.
- (vi) MATURITY OF INVESTMENTS: In order to minimize the impact of market risk, generally it is intended, that all investments will be held until maturity. Projected cash flow requirements are the primary factor to be used in determining investment maturity terms. After cash flow needs have been met, yield considerations will be the next factor in determining maturity terms, with the expectations that longer

maturity periods will generally yield greater returns on investments. Investments may be sold before maturity if required for cash flow or appreciation purposes.

The maximum maturity term of any investment shall not exceed five years.

- (vii) **REPORTING:** The District Manager shall provide to the Board of Directors monthly investment reports that provide a clear picture of the status of the current investment portfolio, as required by California Government Code Section 53607 and in compliance with the recommendations provided in California Government Code 53646.
- (viii) **ETHICS AND CONFLICTS OF INTEREST:** Officers and employees involved in the District's investment process shall not conduct personal business activity that could conflict with proper execution of the investment program or which could impair their ability to make impartial investment decisions.
- (ix) **INVESTMENTS POLICIES ADOPTION:** In accordance with California Government Code Section 53607 the District's investments policies shall be adopted annually by resolution of the Board of Directors at a public meeting.



SAN LORENZO VALLEY WATER DISTRICT

FY2021-23 BUDGET PROCESS

FEBRUARY 18, 2021

YES, FY2021-2023 (BIENNIAL BUDGET)

We are proposing to attempt a biennial budget this fiscal year

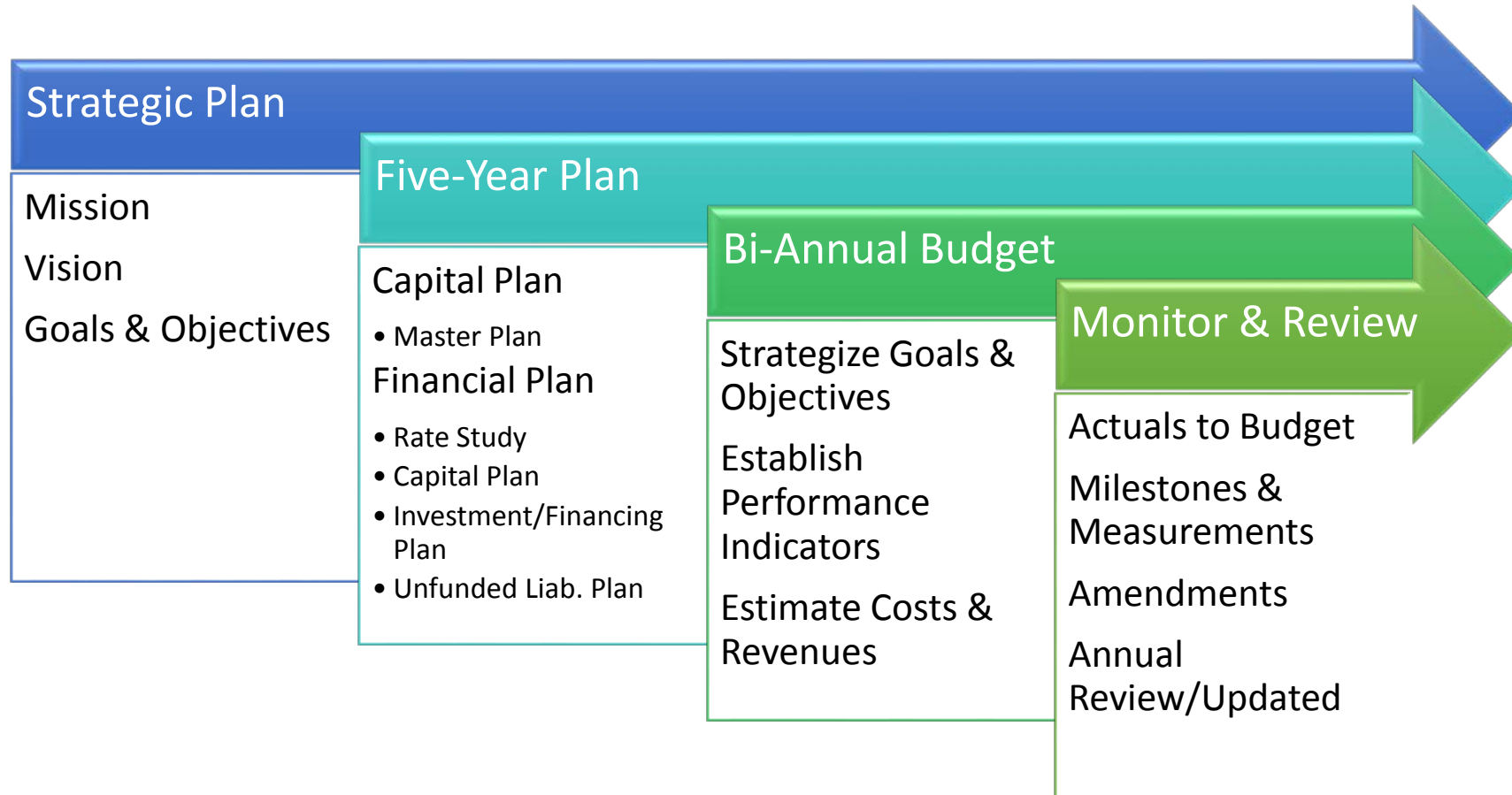
ADVANTAGES

- Reduce the total amount of time spent budgeting over a two-year period and freeing up time for other projects in year two.
- Encouraging the District to think strategically over multiple years instead of just budgeting for a single year.
- Odd year biennial is preferred.

DISADVANTAGES

- More time and effort required to develop the budget in year one.
- Some Districts spend too much time on budget amendments or the mid-biennium review and adjustment, eliminating any time savings in year two.

FIDUCIARY RESPONSIBILITIES



BUDGET PROCESS – HIGH LEVEL OVERVIEW



BUDGET PROCESS PHASES



FOUR MAIN BUDGET METHODS

INCREMENTAL

- Adds or subtracts a % or \$ to current year figures
- Used if the primary cost factors do not change year to year or variables are more known

ZERO BASED (Bottom-up)

- Starts with the assumption that all department budgets are zero and must be rebuilt from scratch.
- Best suited for addressing discretionary or specific project costs rather than on-going operating costs

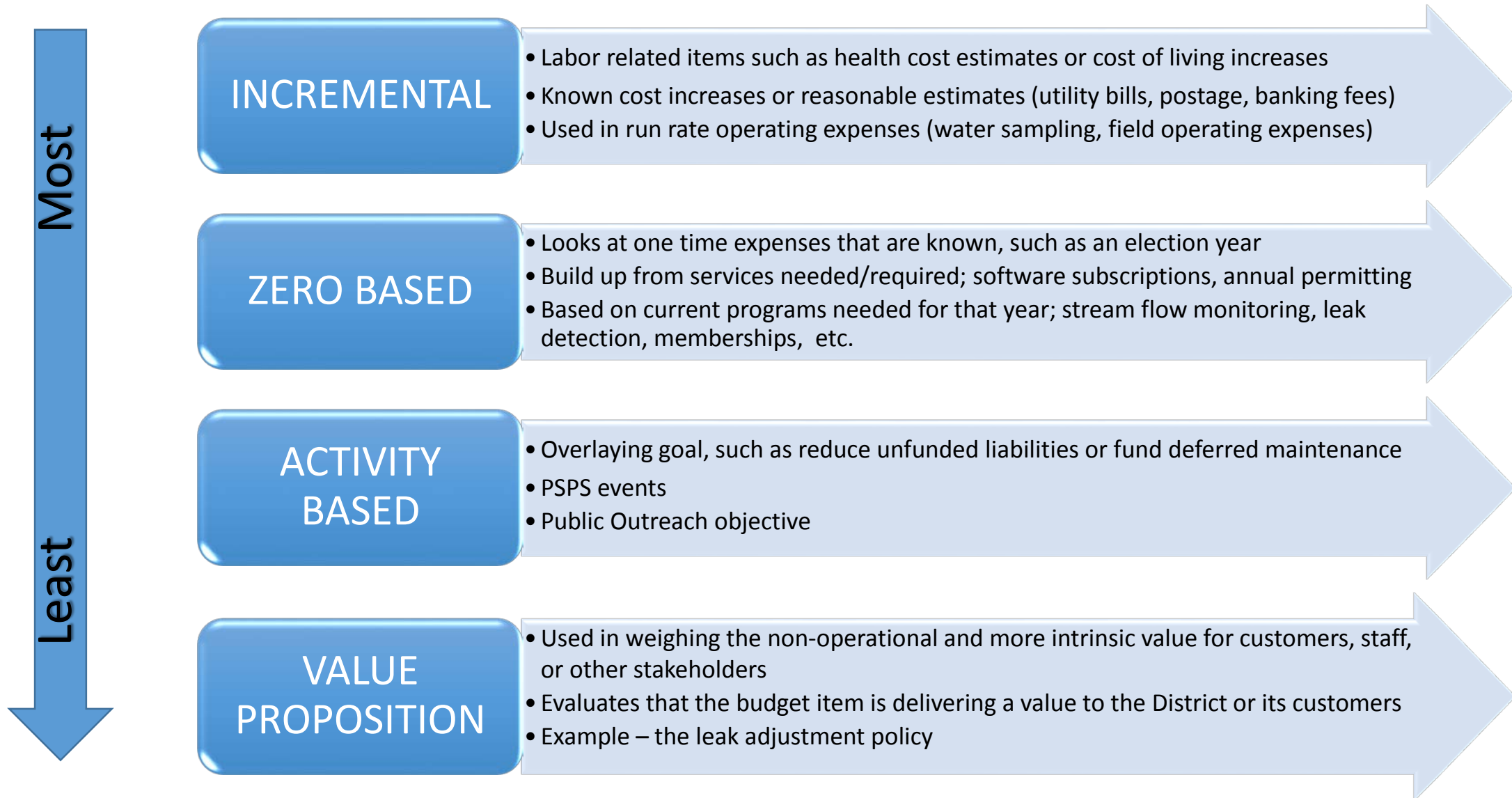
ACTIVITY BASED

- Top-down approach where management uses past experiences and current goals

VALUE PROPOSITION

- Why is this amount included in the budget?
- Does the item create value for customers, staff, or other stakeholders?
- Does the value of the item outweigh its cost? If not, then is there another reason why the cost is justified?

WHICH METHOD DO WE USE?... ALL OF THEM!



What are we missing?

A current Strategic Plan

Why it's important: It is the guiding document of the District. It sets the vision and measurable goals & objectives.

A Capital Master Plan

Why it's important: Needed for long term financial and capital improvement planning.

Where we want to be?

Have a current Strategic Plan

Ties into 5 year Capital & Financial Plan

Ties into current Goals & Objectives of the District

Guides the budget process

Can lead to a biennial budget process

GFOA Distinguished Budget Award

FUNDAMENTALS FOR FY2021-2023 BUDGET

REVENUE

- Proposing roughly 2% consumption reductions from average each year
- Proposing 665,000 and 650,000 units of consumption, respectively

EXPENSES

- Headcount direction from DM to staff by 2/24/21
- No major changes for projecting regular expenditures
- Budget for PG&E PSPS events and increased CZU expenses
- Present unfunded employee benefit liability reduction plan

CAPITAL

- Main projects will be CZU fire damage and pipeline projects
- On-going CIP needs to be carried out
- Identify deferred maintenance projects and an escalated plan

UNFUNDED LIABILITIES

Pension Liab.

FY1920 \$4.2M per audit

District has done fresh starts to amortize over shorter periods

Can do pay downs during the year, can open a trust fund

OPEB Liab.

FY1920 \$2M per audit

District created the trust to be able to start funding

Things to think about:

- Implied Subsidy
- How to get reimbursed

Deferred Maint.

Full scope still to be determined

In general, is chipped away at as we go. Typical examples are tank coatings.

Proposed Budget Timeline

Timeframe	Activity	Key Concepts
February	Internal Budget Kick-Off – <ul style="list-style-type: none"> • 6 month actuals review • Define Dept Goal Concepts • Forecast FY Operating Expenses • Forecast FY Operating Revenues 	<ul style="list-style-type: none"> • Tie Goals to Strategic Plan • Identify any major changes to expenses & revenue • Identify any headcount changes
March - April	Internal – Capital Project Planning Non-operating revenue & expenses	<ul style="list-style-type: none"> • Identify projects anticipated for the FY • Identify funding sources
March 3/17 B&F, 3/18 BOD	External – Operating Rev. & Exp. Review	<ul style="list-style-type: none"> • Review major concepts of each section
April 4/1 BOD, 4/21 B&F	External – Review of All Major Components	<ul style="list-style-type: none"> • More detailed department review at B&F level • Public Presentation Workshop?
May 5/6 BOD, 5/19 B&F if needed	Internal – Final revisions made based on Board input External – Draft May BOD Full Budget	<ul style="list-style-type: none"> • Full document composed • Potential for adoption by Board
June	Time for any final revisions, final adoption	<ul style="list-style-type: none"> • Adoption prior to 6/30