

Minutes
Rio Linda / Elverta Community Water District
Executive Committee

September 8, 2020
6:00 P.M.

Minutes: The meeting was called to order at 6:04 P.M. The meeting was attended by Director Reisig (via Zoom), Director Green (via Zoom), General Manager Tim Shaw (via Zoom) and Contract District Engineer Mike Vasquez (via Zoom). There were no members of the public in attendance. The meeting remote participation application (Zoom) had no participants

Call to Order 6:04 P.M.

Public Comment None

Items for Discussion:

1. Review and discuss the expenditures of the District for the month of July 2020.

*Director Reisig requested additional information on the CalPERS payments, specifically the \$68K UAL payment. The General Manager explained the difference between the biweekly payments for each pay period in each monthly expenditure report and the annual Unfunded Accrued Liability (UAL) annual payment. Biweekly payments are amounts we are obligated to pay to CalPERS each pay period. There are two separate amounts each pay period because the District employs personnel in two legally defined categories, Classic and PEPR. Classic employees were hired prior to January 1, 2013 and Public Employee Pension Reform Employees (PEPR) were hired after January 1, 2013. These payments each pay period represent minimum payments. The minimum payments the District is making are analogous to the minimum payments some people make on their outstanding credit card balance. The similarities include that if you only make the minimum payments, you will end up paying an obscene amount of interest. The other amount is a big reason why PEPR was passed into law. The unfunded accrued liability (UAL) is a minimum payment on the unfunded accrued liability. Skyrocketing UALs are directly responsible for cities and other municipalities declaring bankruptcy. The total UAL, which is currently **\$1.1 million for RLECWD**, is the amount CalPERS has determined that the District owes the retirement system to meet the District's current obligation to employees by actuarially computed current employees age, mortality tables, income, etc. In 2011, the District's UAL was about \$630K, so you can see the impact of making minimum payments, which is basically financing the amount owed at 7% interest. Throughout the United States, for the past 20 years, defined benefit pension plans have encountered higher than expected payouts and lower and expected returns on investment. These shortfalls in funding of the plan result in alarming bottom lines. For example, in 2000, CalPERS had 128% of the funding it needed to honor its obligations, CalPERS was "superfunded". 10-years later, in 2010, CalPERS had only 61% of the funding to honor its obligations. Here is a zinger: CalPERS charges 7% interest to its participating employees for the UAL. The CalPERS UAL debt is the most expensive debt that RLECWD ratepayers/taxpayers have.*

CalPERS has policies that can be described as politically motivated. For example, we know and have known since June 30th that CalPERS investments failed to meet the 7% return on investment criteria in FY 2019/2020. The return was only 4.35%. However, CalPERS is deferring the increase in minimum UAL for two years. The debt is still there and CalPERS is still charging us (and all other participant employers) 7% interest on the new debt. CalPERS is just kicking the can down the road so when they start charging more minimum payments for this new debt, it will be even larger than it would have been if they applied the liability linearly. Next year, the RLECWD minimum UAL annual payment will increase to \$80K in July 2021, and will increase to \$90K in July 2022. See attached. Even more exasperating is that the attached is projections based on data through 2018. The attached does not factor in

increases in UAL minimum payments due to under performance in 2019 and under performance in 2020 due to COVID.

On the glass half full side of things, there is an abundance of low-hanging fruit available for RLECWD to improve its current UAL minimum payment status. The item will be on the October 5th Executive Committee agenda.

Director Reisig requested additional detail on a closed account refund, The amount refunded was due to an individual with multiple accounts (dwelling units).

Director Reisig questioned the two separate payments to Lechowicz (Rate Study). The General manager explained the first invoice was submitted vis USPS and was much slower than the second invoice submitted via e-mail. The two invoices for fore succeeding months services, i.e. one for May and one for June, bot paid in July.

The Executive Committee forwarded the Expenditures Report onto the September 21st Board agenda with the Committee's recommendation for Board Approval.

2. Review and discuss the financial reports for the month of July 2020.

Director Reisig requested additional information about depreciation in the financial reports. The General Manager explained the District's depreciation is rigidly tied to our list of assets and our definition of assets. Typically, an audit comment might be along the lines of the need to update our list or that the service life we're using may be inconsistent with established standards. The District is not, however, funding depreciation. We have to compute it and report it, but we're not legally obligated to fund depreciation. Unlike private sector, for-profit entities, there are no tax implications because the District tax-exempt.. Reporting depreciation without funding depreciation leads the auditor to guard against deceptive practices, e.g. deceiving the public into concluded the unfunded depreciation is a smaller problem than it is.

Director Reisig asked for clarifications on the revenues contrasted between the July report and the June report (reviewed and discussed at the August Executive Committee). The General Manager explained that the bimonthly billing cycle and corresponding payment patterns results in the dissimilar revenues for every two consecutive months. The dissimilarities are further exacerbated when you split the fiscal year, with June being in one year and July another.

The Executive Committee forwarded the financial reports onto the September 21st Board agenda with the Committee's recommendation for Board approval.

3. Discuss a request for Board consideration of billing issues.

The General Manager expounded upon the written agenda item report. The GM explained that the account notes indicate this customer requested service, paid the capacity fees and then did not consume any District water. Apparently, this customer drilled a private well and has used that source instead. The customer did not request a status change to "Inactive Account" Staff infers the request now by the customer is a refund of the difference between the accumulated charges for active without consumption and the charges that would have accumulated for inactive service.

The General Manager further explained that the Board adopted policy is to have the full Board rule on customer's request for Board consideration, i.e. the Committee can recommend, but the Board has the final decision.

Accordingly, the Executive Committee forwarded this item onto the September 21st Board agenda and directed staff to compile the accumulated difference between active service with zero consumption and inactive service.

<p>4. Discuss the need to process a Board approved budget revision to correct an error in the FY 2020/2021 Capital Budget.</p>
<p><i>The General Manager augmented his written agenda item report. Director Reisig requested some basic review of timelines (e.g. when the current budget was adopted and how/why the financial reports discussed in item 2 reflect the higher contributions for capital budget indicated with the staff-proposed reconciliation of the transcription error for the beginning balance. Director Green expressed that he understands the material presented and further supports the option for corrective actions prescribed by staff.</i></p> <p><i>The Executive Committee forwarded Budget revision 1 onto the September 21st Board agenda with the Executive Committee's recommendation for Board approval.</i></p>
<p>5. Discuss the timing and process for initiating a pipe replacement project.</p>
<p><i>The General Manager explained that the budget revision, a capital budget revision recommended for Board approval in the preceding item, entails a one-year reduction in pipe replacement funding. The August version of the Capital Budget effectively had two years of pipe replacement funding in the first fiscal year of annual pipe replacement projects. With two months already lapsed in the current fiscal year, it may have been infeasible to undertake two years of pipe replacements in the first year of the program.</i></p> <p><i>The Contact District Engineer and the General Manager explained that staff needs the Committee's direction to refine the process. One method of contracting for pipe replacements is to competitively bid a time and material contract. Such a method would entail less overhead costs compared to paying for a design, and reviewing, adopting bid specs, then soliciting bids. However, the District needs to confirm there are sufficient time & materials contractors interested and in our area. The District also needs to commence dialog with Sacramento County to ensure a flexible encroachment permit scenario and other construction aspects within the County's purview.</i></p> <p><i>The Executive Committee directed staff to update the Committee at the October 5th meeting.</i></p>
<p>6. Discuss quotes for service to enhance customer consumption data, e.g. WaterSmart and DropCounter.</p>
<p><i>The General Manager augmented his written agenda item report, and further explained a third, emerging option, which may be implantable as a fee instead of a rate. Additionally, this third option via Metron Farnier would enable the District to pilot test the equipment and software prior to wide-scale implementation.</i></p> <p><i>The pros and cons with each method were discussed by the Executive Committee. One con about setting aside the DropCounter option now, is the timing of the ongoing rate structure study. The annual charges from DropCounter effectively means the District needs to increase rates to pay the annual service charges to DropCounter. There is no way to be sure how many customers would sign up for consumption software accounts, but the annual charge is the same for one customer or 4,700 customers. The Metron option is completely scalable. If one customer signs up, we pay only for that customer. The hardware and account are transferable, i.e. if a customer un-enrolls, we can transfer the hardware and account to a different customer.</i></p> <p><i>The Executive Committee supports the staff conclusion that the Metro option is worthy of further consideration. Pilot testing will commence as soon as the material are provided by Metron.</i></p>
<p>7. Discuss the timing and preferences for re-establishing in-person public meetings.</p>
<p><i>The Executive Committee forwarded this item onto the September 21st Board agenda. The Committee intentionally withheld any recommendations for Board action.</i></p>

8. Update from Contract District Engineer

<i>The Contract District Engineer augmented his written report. No further explanations were requested by the Executive Committee.</i>
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Directors' and General Manager Comments

None

Adjournment 7:10 P.M.

Next Executive Committee meeting: Monday, October 5, 2020 at 6:00 p.m. TBD