

BOARD OF DIRECTORS
INDIAN WELLS VALLEY WATER DISTRICT

FINANCE COMMITTEE
REGULAR MEETING
REPORT

TUESDAY, FEBRUARY 5, 2019 – 3:00 PM

BOARD ROOM
500 W. RIDGECREST BLVD., RIDGECREST

ATTENDEES: Ron Kicinski, Stan Rajtora, Don Zdeba, Ty Staheli, Jason Lillion, and Renee Morquecho

1. Call to Order

The Finance Committee Meeting was called to order at 3:00 pm.

2. Committee/Public Comments

None.

3. Fraud Risk Discussion

Description: Discuss potential or actual fraud risks within the organization.

None to report.

4. 2017-2018 Audit

Description: Staff will notify the Committee the final report will be presented at the February 11, 2019 regular Board meeting.

Committee was notified.

5. Cost of Service Study

Description: Provide responses to Cost of Service Study questions.

1. FY18 Budget Numbers. The Schedule 4 cash flow projection, i.e., the Perform a, was based upon FY18 data estimates. The projections underestimated revenue by more than \$400k and overestimated cash funded capital improvements by more than \$800K. The net result, including all pluses and minuses, was a greater than \$1 M net error. Question: What is the impact of generating the cash flow projections using FY18 revenue and expense estimates with a net \$1M error?

Minimal as the capital improvements still need to be done and are pushed to the following years. Revenue projections are made on the conservative side to lower risk.

A rate study, by definition, is required to use financial projections (as opposed to actual expenses/revenues). It's not feasible to update the financial plan every time new data becomes available.

2. GSA Pass Through. The rate study shows on page 22 how the GSA pass through seven cent pumping tax is added to all water units sold to customers. Row 226 of schedule 5 shows a SGMA pass through cost of \$175,873 also added in the conservation cost column. When adding the 41 % admin overhead rate and subtracting for the 20% non-rate revenue this is a \$212,806 conservation cost. If we assume tier 4 accounts for 9% of the total units of water sold, more than 90 cents of the tier 4 water rate is due to the GSA pass through. Question: Why are ratepayers being charged twice for the GSA pass through?

Response to this question would require consultation from the rate consultant and an additional expenditure of District funds. The Board has directed staff to answer questions in-house to the extent possible and not expend additional funds on the consultant.

3. Cash Capital. Schedule 5 indicates more than \$3M in cash from the operating budget will be invested per year on capital improvements. This is consistent with Schedule 4 for the FY19 budget-setting year. However, there is no intension to spend \$3M from cash this year, and according to the Schedule 4 Performa the projected average capital investment from cash is \$1 .24M over the next nine years. That is not even close to the projected \$3M. The arsenic project is projected to spend \$847K of the \$3M per year. That represents more than \$5 cost per month to each ratepayer. Yet, the approved capital improvement budget shows NO funding for the arsenic project for the next few years from either cash or debt proceeds. The current approved capital improvement plan does show spending \$14M on capital improvements coming from debt proceeds over the next two years. Questions: Why does the rate study Include \$3M in capital costs per year from cash when there is little planned cash expense? Why does the rate study include \$847K In arsenic capital costs per year from cash when there Is NO planned expense? Why does the rate study not include the approved \$14M capital improvement effort funded by debt proceeds? Why does the Performa show cash used to fund capital projects rather than debt proceeds?

The rate study information was gathered and analyzed prior to approval of the FY2019 budget. The \$847,433 is not actually being spent on Arsenic. When doing a Cost of Service study we pick a "Test Year". One problem with this approach is that the capital spending in that Test Year could be very heavily weighted towards one system component (e.g. storage) or another (e.g. arsenic). If we allocated capital costs in that manner we would end up with an allocation that is heavily skewed towards whatever projects happened to occur during the test year. Therefore, in practice, we don't allocate capital costs based on those projects but rather in a manner that is representative of the amount of capital investment that is made into system components over the long term. We do this by allocating the capital costs based on the relative value of the system component per the District's asset register (see Section 3.1.1.). We found that the value of the Arsenic system is 27.5% of the total system value. The total capital spending during the Test Year is about \$3.1M, therefore 27.5% of that (or \$847K) is allocated to Arsenic. Additionally we anticipate an average of \$3 million per year for capital projects based on historical financials. We have not identified all of the future projects to date but will as needs are evaluated.

4. Residential Lot Size. The rate study assumes an average residential lot size of 17,000 square feet. I sent an email to the Ridgecrest city manager requesting the city's average lot size. His response was 8,000 to 10,000 square feet. I believe the City's General Plan Housing Element would provide a lot size between 7,000 and 8,000 square feet. The assumed lot size has a dramatic impact on the rate structure and consequently the overall ratepayer fees. Question: What would be the Impact of using an 8,000 square foot lot size?

The Study used the best available data. The District includes many properties that are outside of the City limits. There would be additional costs to modify the model to account for a different lot size.

5. Arsenic Charges. All users are being charged for arsenic treatment. A user who uses 5 units of water a month pays the same arsenic fee as a user who uses 50 units of water a month. Only 25% of our water is treated for arsenic. Arsenic treatment is only needed in the summer for our heavy users. Tier 3 & 4 users are getting benefit from the arsenic treatment. Tier 1 & 2 users do not need arsenic treated water. Question: Why are ratepayers who only use tier 1 water or only use tier 1 and tier 2 water charged for arsenic treatment?

The arsenic charge, as the Board has approved, is a system wide charge. This is a policy decision. There are times during the year when the arsenic plants are running to supply Tier 1 water to Zone A.

6. Cash-for-Grass. Paragraph 3.1.4 of the rate study states the non-rate revenue is allocated equitably between the various system parameters. One of the non-rate revenues is the cash-for-grass State grant. The associated cost is allocated to conservation (see schedule 5, row 222). While an argument could be made for allocating the overhead to administer the grant to 'conservation', the funding for the cash-for-grass program is obviously from the State. Distributing the non-rate revenue as done in the study violates the grant requirement that the grant be spent on conservation. The basic funding of the program should be by the State grant, not ratepayers. The cash-for-grass project is not a continuing project, but the rate study ensures the ratepayers will be paying for it for the next few years. Question: Why are ratepayers being charged for the cash-for-grass project?

Cash-for-grass is a limited lifetime project. We anticipated a District funded continuation conservation program (ie. Evap-for-AC) in the outlying years.

7. Commercial Fee Structure. The rate study commingles the residential fees with the commercial fees. The tier structure is designed for the residential user. Question: What analysis has been done to ensure equitability between commercial users as well as between residential users and commercial users?

Our current fee structure does not use different customer classes. Our structure is based on meter size. This is a policy decision made by the Board.

8. Admin Costs. The transformation between schedule 5 and schedule 6 spreads the Admin costs over the various system parameters as an overhead cost. The admin overhead is high, 41%. Question: What has been done to verify all the costs included In the Admin costs are truly Admin, and has there be any effort recently to reduce Admin costs?

Costs in admin do not fit any other buckets. We have budget development and approval every year which requires justification of budget requests.

9. Budget Equivalence. Schedule 4 identifies costs based upon one set of cost parameters. Schedule 5 identifies costs based upon an entirely different set of cost parameters. No matrix correlating one set of cost parameters to the other is provided. The reader is asked to believe the two cost budgets are the same. There is no discussion that attempts to show they are equivalent. Question: Does any documentation exist that shows the two budgets are equivalent?

There is no document that shows the correlation between the two backup documents. The reader, if they desire, can sum the like expenditures of the different operation units from the schedule 5 to cross-reference with schedule 4.

6. Fourth Quarter 2018 Investment Report

Description: Presentation to the Committee of the quarterly investment earnings of the District's reserves in the Kern County Treasury and the State Treasury's Local Agency Investment Fund(LAIF).

**INDIAN WELLS VALLEY WATER DISTRICT
 QUARTERLY INVESTMENT REPORT
 QUARTER ENDING DECEMBER 2018**

INVESTMENTS	UNRESTRICTED	RESTRICTED	TOTAL
Cash in Bank	\$ 1,308,144	519,142.59	
Local Agency Investment Fund	1,022,224		
Kern County Treasurer	7,805,742	276,121	
BNY Western Trust Company 2009 Bond Reserve Fund		39,745	
BNY Mellon 2018 COP Project Fund		14,000,000	
Total Water District Investments	<u>\$ 10,136,110</u>	<u>\$ 14,835,009</u>	<u>\$ 24,971,119</u>

RESERVES	DISTRICT DESIGNATED	RESTRICTED	TOTAL
Capital Improvements & Replacements (Committed)	\$ 2,094,532		
Vehicle Replacement (Assigned)	353,818		
Computer Equipment Replacement (Assigned)	101,091		
Emergency Reserve (Committed)	2,955,004		
Alternate Water Supply/Future Source of Supply (Assigned)	776,367		
Miscellaneous Capital (Assigned for projects postponed)	1,223,638		
Customer Deposits & Credits (Nonspendable)	274,581		
Prepaid Connection Fees (Nonspendable)	489,197		
Post-Retirement Health Benefits - Kern County (Assigned)	301,292		
Emergency Reserve (Uncommitted)	1,566,590		
AD 87-1 Reserve Funds (Restricted to pay Prop 55 Loan)		274,780	
2009 COP Reserve Funds		39,745	
2012 Loan Reserve Funds		0	
2016 Solar Loan Project Funds		519,143	
2016 Solar Loan Reserve Funds		0	
2018 COP Project Funds		14,000,000	
Prop 55 Loan Reserve Funds		1,342	
Total Water District Reserves	<u>\$ 10,136,110</u>	<u>\$ 14,835,009</u>	<u>\$ 24,971,119</u>

In the event of an emergency, the District may be required to use any or all unrestricted funds in Mission Bank, Kern County Treasury and LAIF

7. Financial Statements January 31, 2019 (preliminary)

Description: Presentation to Committee financial reports and a graph depicting current revenue and expense trends compared to budget and previous fiscal year actuals.

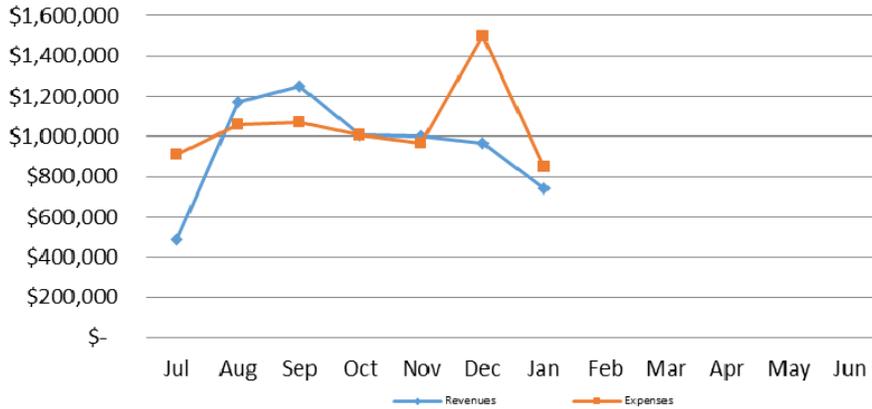
Estimated year to date revenues as of January 31, 2019 are \$6,624,271 and expenses are \$7,367,909, therefore expenses exceeded revenues by \$743,638, which trails budget by \$593,488 due to the cost of issuance expense of the 2018 COPs.

Staff presented the following spreadsheets, which compare January 2019 year-to-date actual to budgeted revenues and expenses by category:

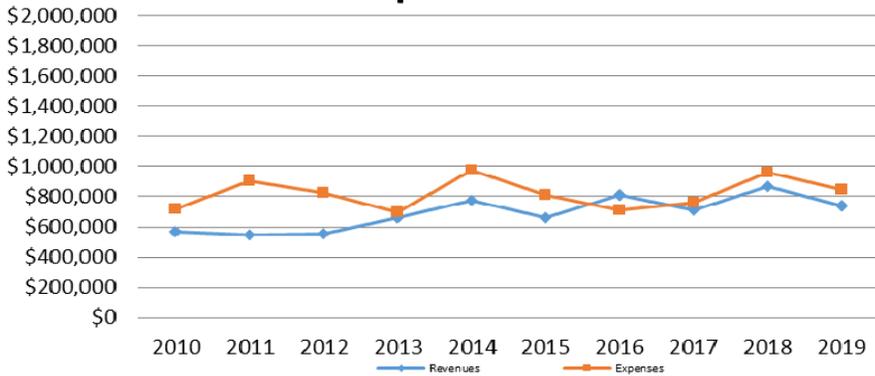
Indian Wells Valley Water District
Revenues vs. Expense
Actuals & Budget through January 2019 (Preliminary)

	Budget	Actuals	Δ
Revenues			
Total Water Sales	6,086,850	5,904,670	-182,180
Total Water Service Revenue	159,000	174,605	15,605
Total Non-Operating Income	436,200	338,754	-97,446
Capital Contributions	133,500	206,242	72,742
Total Revenues	6,815,550	6,624,271	-191,279
Expenses			
Water Supply	430,773	622,379	191,606
Arsenic Treatment Plants	145,541	146,036	495
Transmission & Distribution	1,016,163	799,207	-216,956
Engineering	238,885	211,716	-27,169
Customer Service	224,011	206,751	-17,260
Field Services	233,549	416,821	183,272
General & Administration	1,138,907	1,215,870	76,963
Legislative	71,909	68,700	-3,209
Depreciation	2,029,111	2,029,111	0
Non-Operating, Interest	655,269	1,211,027	555,758
Non-Operating, Miscellaneous	162,235	226,871	64,636
Non-Operating, Conservation	207,417	28,057	-179,360
Non-Operating, Alternate Water	411,930	185,363	-226,567
Total Expenses	6,965,700	7,367,909	402,209
Net Revenue Increase (Decrease)	-150,150	-743,638	-593,488

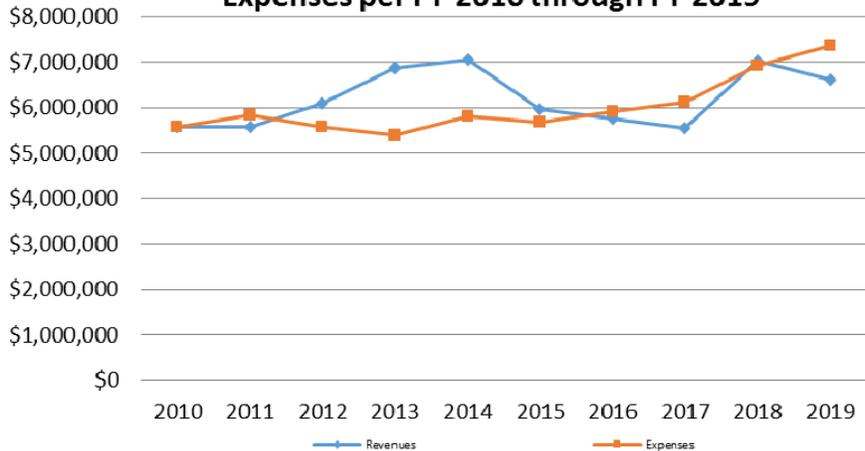
Comparison of FY 2018-2019 Revenues and Expenses by Month

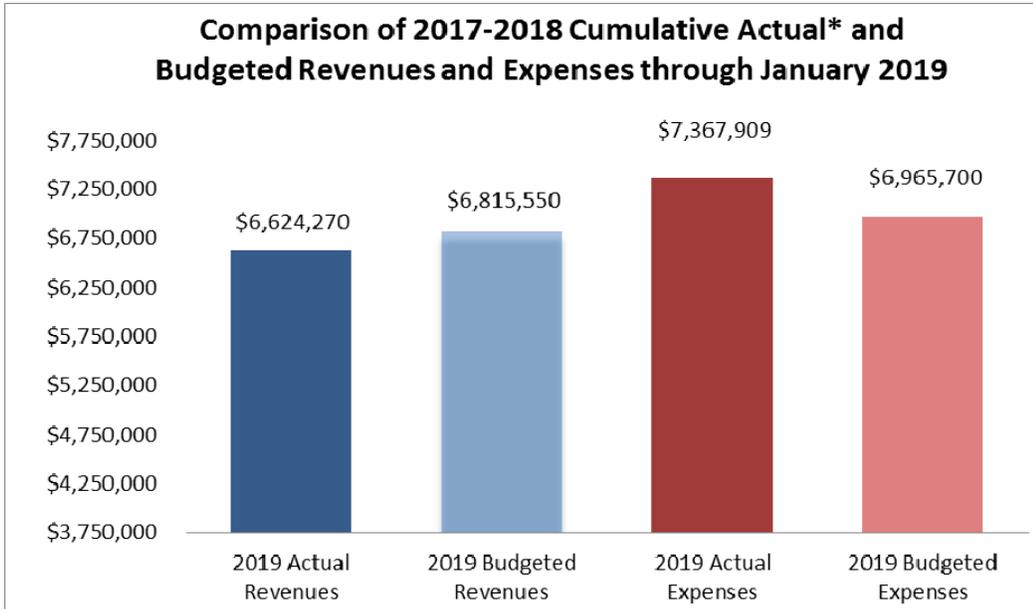


Comparison of January Revenues and Expenses per Fiscal Year



Comparison of January Cumulative Revenues and Expenses per FY 2010 through FY 2019*





**Actual Revenues and Expenses are Estimated*

8. Accounts Payable Disbursements

Description: Presentation to Committee of Accounts Payable Disbursements reports for Board approval.

The Committee recommended approval of accounts payable disbursements totaling \$784,280.55 as follows:

Checks through:	<u>12/30/18</u>	<u>1/13/19</u>
Prepaid	\$ 312,403.73	\$ 259,603.31
Current	<u>130,844.53</u>	<u>81,428.99</u>
Total	<u>\$ 443,248.25</u>	<u>\$ 341,032.30</u>

9. Future Agenda Items

Final 2018 COP numbers.

10. Adjournment

The Committee adjourned at 4:42pm.