



**BEAUMONT-CHERRY VALLEY WATER DISTRICT
MINUTES OF MEETING OF THE FINANCE AND AUDIT COMMITTEE
Thursday, December 5, 2019 at 3:00 p.m.
560 Magnolia Avenue, Beaumont, CA 92223**

Directors present:	Director Hoffman and Director Slawson (Committee members)
Directors absent:	None
Staff present:	General Manager Dan Jagers, Director of Finance and Administrative Services Yolanda Rodriguez, Senior Finance and Administrative Analyst Bill Clayton, Senior Engineer Mark Swanson, Assistant Director of Operations James Bean, Accounting Technician Sally Hernandez, and Administrative Assistant Erica Gonzales
Members of the public who registered:	None.

CALL TO ORDER

Director Hoffman called the meeting to order at 3:03 p.m. at 560 Magnolia Avenue, Beaumont, California.

PUBLIC INPUT: *None.*

ACTION ITEMS

1. Adjustments to the Agenda:

None.

2. Review and Acceptance of the November 7, 2019 Minutes of the Finance and Audit Committee

The Committee accepted the minutes of November 7, 2019 as presented.

3. Receive and File the Check Register for the Month of October 2019

The Committee received and filed the October 2019 Check Register as presented.

4. Financial Reports/Recommendations

- a. Review of the October 2019 Budget Variance Report
- b. Review of the October 31, 2019 Cash/Investment Balance Report
- c. Review of Check Register for the Month of November 2019
- d. Review of November 2019 Invoices Pending Approval

Director Hoffman asked about fixed meter charges of \$3,131,000 budgeted and if they are fees charged for every meter whether water is delivered or not. Mr. Swanson confirmed and indicated fees are based on meter size. The meter fees will also be adjusted in the rate study, General Manager Jagggers explained. He detailed the components of a water bill.

Mr. Jagggers explained the cost of the Nickel Water supply and the San Gorgonio Pass Water Agency (SGPWA) \$399 imported water rate.

Director Hoffman asked whether fire extinguisher maintenance expenses were sent out for bid. Assistant Director of Operations James Bean explained staff contacted several providers for informal quotes, and this year received two. The same contractor has done the maintenance for the last couple of years, Mr. Bean advised, and explained the process.

General Manager Jagggers pointed to maintenance work done on wells in conjunction with power shutoffs. In response to Director Hoffman, Mr. Bean and Mr. Jagggers spoke about generator and vehicle maintenance.

Director of Finance and Administrative Services Rodriguez explained expenses related to the 2019 Association of California Water Agencies conference. Mr. Jagggers advised that BCVWD should probably have a larger presence at the conference.

After review and discussion, the Committee recommended presenting the Financial Reports to the Board for approval.

5. Analysis: Monthly electricity expenditures related to production

Director Hoffman pointed out the cost per acre-foot produced in 2017 and 2019 are almost the same amount and noted that the 2018 cost was greater. Mr. Jagggers explained that some wells were run during peak periods due to other wells being down. With the changes in Southern California Edison rates, some of those penalties will no longer apply, Jagggers noted. Jagggers explained the District's production.

6. Draft BCVWD Fiscal Year 2020 Operating and Capital Improvement Budget Preliminary Finances

GM Jagggers advised there has been an increase in the rate for the imported water supply, but there is no way to recover it. BCVWD passes through a rate of 46 cents per unit of sale (100 cubic feet), which should be 71 or 72 cents, Jagggers explained. Currently, the District budget is in deficit, Jagggers advised, largely due to the adverse effects of the SGPWA rate increase. He reminded the Committee that an adjustment was made to the budget in September based on purchase of more available water, which would be sold during a later drought, for a total of \$3.7 million.

Mr. Jagggers updated the Committee on the complexity of water production and replenishment, and related costs for imported water supply. He estimated that expenditures for imported water will total \$5,284,857 in 2019. Next year will be similar in complexity, Jagggers advised and pointed to an increased 2020 budget line item. Director Hoffman requested Mr. Jagggers present the information to the full Board at the upcoming Budget Workshop.

Mr. Jagers emphasized the need for a rate increase in 2020 and pointed out cost increases such as a new Human Resources department, health insurance rates, and implementation of the salary survey plan which has increased labor costs by \$1 million.

Director Slawson asked about progress on the rate study and Ms. Rodriguez indicated the study is on target for rates to be effective March 1, 2020 if the Board approves the rates and there is no majority protest.

General Manager Jagers and Senior Finance and Administrative Analyst Bill Clayton explained some upcoming large expenses including facilities that will diminish available reserves.

Director of Finance and Administrative Services Yolanda Rodriguez reviewed the proposed 2020 budget. GM Jagers pointed out that revenue estimates will be amended in March if new rates are approved. It is projected to recover costs incurred due to the increase in the imported water rate. Ms. Rodriguez and Mr. Jagers explained restricted funds and anticipated development of 300 new houses per year.

Ms. Rodriguez detailed differences between the 2019 operating budget and proposed 2020 budget totaling \$17.1 million. Elections expenses budgeted for 2019 were less than expected as no election was necessary, she said. Increased expenses are anticipated in labor, health coverage and retirement costs, she explained.

Ms. Rodriguez explained additional detail regarding increased budgets for source of supply, pipeline maintenance, customer service, maintenance and general plant, and engineering.

Gross estimated revenues of \$16.9 million includes operations, facilities fees, and interest earned, Rodriguez explained. She noted this is not a balanced budget for 2020. She pointed out the adopted vs. amended 2019 budget showing added expenses and Mr. Jagers gave detail on the 2019 budget discrepancy caused by the budget amendment allowing the one-time purchase of additional water.

In response to Director Hoffman, Mr. Jagers explained estimated energy costs related to pumping and water demand.

Ms. Rodriguez noted that a budget of \$19.8 million in revenue was adopted in 2019; and actual is anticipated to be \$13.1 million. The 2020 revenue budget is conservatively estimated, she said, and detailed the projections for \$16.9 million in revenue.

Ms. Rodriguez continued, outlining differences in estimated expenses for 2020.

Director Hoffman pointed to depreciation and asked how it affects a non-taxable entity such as the water district. Mr. Jagers referred to the asset list showing assigned depreciation life of each asset. It is ultimately used to cast a rate recovery component to replace the assets at the end of its life, Jagers explained. If depreciation is funded, a capital replacement reserve is established, as funds are accruing, he added. In 2020, Jagers continued, depreciation is potentially not funded. Director Hoffman asked about restrictions on the funds, and Ms. Rodriguez noted they are restricted to operations. If the depreciation cannot be matched, Jagers warned, facilities such as pipelines will not be able to be replaced as they will not be fully funded. The last rate study significantly underfunded replacements, he noted, but it also included bond expenditures which were

never incurred. Ms. Rodriguez stated that the goal is to fully fund depreciation with cash available at the end of the year after expenses are deducted from revenues.

It is also a tool to show when it is time to do a rate study, as when depreciation is not funded, the District is unbalanced and will not be able to replace facilities due to under collection in rates. Director Hoffman indicated concern with tracking money set aside as described and whether it was used as intended. Mr. Jagers explained current projects being funded from capital replacement reserves and Mr. Clayton pointed out projections for such expenditures.

In response to Director Hoffman's questions, Mr. Jagers suggested a more detailed presentation at a future meeting. Ms. Rodriguez noted the balance sheet would show use of the funds. Hoffman noted that every expenditure is reviewed; no money goes out that the Committee does not know from where it came or from what it was intended for.

Ms. Rodriguez continued with the review of expenditures of \$17.1 million proposed for 2020 and explained the Personnel Summary by Department classification plan.

The total anticipated capital budget for 2020 is \$25.6 million in project expenditures, Rodriguez said. Mr. Clayton added that these are paid from restricted cash and are based on available funds, driven by the collection of facilities fees. Mr. Swanson explained that when new development comes, the developers pay fees to expand the system.

Ms. Rodriguez provided a history of the water importation surcharge and costs. She advised the Committee of her concern about revenue being \$1.4 million less than actual costs. Every year, the District has been running at a deficit, she noted. Mr. Jagers further explained water replenishment, drought condition and storage details. Director Slawson asked if this was considered in the Raftelis rate study and would change when the rate changes. Ms. Rodriguez indicated it would. Mr. Jagers discussed water supply needs over a 20-year projection of growth. Mr. Clayton explained the Raftelis study anticipates holding the line on supply need.

Mr. Jagers again pointed to the expected 2020 deficit, and Ms. Rodriguez noted the figures do not include setting any funding aside for capital replacement, which the District has always had previously. The \$2.6 million depreciation will not be funded, Jagers clarified. Once the rate is adjusted, he noted, the budget will be able to be balanced. All the factors – salary survey, imported water rate increase, etc. – created a negative position for the District this year, Jagers explained, which must be recovered. The District will be short by \$400,000 not including capital replacement, he said. Ms. Rodriguez advised that the Board will have to pull \$400,000 from reserves to balance the budget this year.

Next year, Jagers continued, the District can reduce its purchase of State Water Project imported water by \$400,000 in order to balance the budget. There are strategies to balance the budget if the rate study is not successful, he explained.

7. Action List for Future Meetings:

- Update on Water Supply Conditions
- Water rates
- Capacity fees

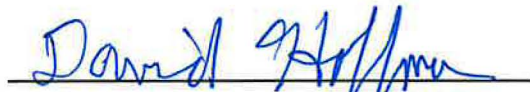
ANNOUNCEMENTS

Director Hoffman read the following announcements:

- Budget Workshop: Thursday, Dec. 5, 2019 at 6 p.m.
- Regular Board Meeting: Wednesday, Dec. 18, 2019 at 6 p.m.
- District Offices will be closed on Wednesday, Dec. 25, 2019 in observance of Christmas Day
- District Offices will be closed on Wednesday, Jan. 1, 2020 in observance of New Year's Day
- Finance and Audit Committee Meeting: Thursday, Jan. 2, 2020 at 3:00 p.m.
- Regular Board Meeting: Wednesday, Jan. 8, 2020 at 6:00 p.m.
- Engineering Workshop: Thursday, Jan. 23, 2020 at 6:00 p.m.
- Personnel Committee Meeting: Monday, Jan. 27, 2020 at 5:30 p.m.
- Beaumont Basin Watermaster Committee Meeting: Wednesday, Feb. 5, 2020 at 10:00 a.m.

ADJOURNMENT

Director Hoffman adjourned the meeting at 5:15 p.m.



David Hoffman, Chairman to the
Finance and Audit Committee of the Beaumont-Cherry Valley Water District