

**MINUTES OF THE
OCTOBER 19, 2020
PUBLIC HEARING AND BOARD OF DIRECTORS REGULAR MEETING
OF THE RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT**

1. CALL TO ORDER, ROLL CALL

The October 19, 2020 meeting of the Board of Directors of the Rio Linda/Elverta Community Water District called to order at 6:30 p.m. via Zoom Video Conference. This meeting was held in accordance with executive order n-29-20, issued by California governor Gavin Newsom on March 17, 2020, the Ralph M. Brown act (California government code section 54950, et seq.), and the federal Americans with disabilities act. General Manager Tim Shaw took roll call of the Board of Directors. President Jason Green, Director Robert Reisig, Director Mary Harris, General Manager Tim Shaw, and Legal Counsel Kerry Fuller were present. Director Chris Gifford was absent.

2. PUBLIC COMMENT

3. CONSENT CALENDAR

3.1 Minutes - September 21, 2020

3.2 August Expenditures

3.3 August Financial Reports

No public comment.

It was moved by Director Harris and seconded by Director Ridilla to approve the Consent Calendar. Directors Green, Reisig, Ridilla, and Harris voted yes. Director Gifford was absent. The motion carried with unanimous roll call vote of 4-0-0.

REGULAR CALENDAR

4. ITEMS FOR DISCUSSION AND ACTION

The Board voted to move agenda item 4.5 up to the front of the agenda to be discussed since the public was present.

4.5 Consider customer requests for Board review of billing issues.

Current District policy stipulates that the full Board consider customer's request for waivers, reversal of charges, refunds etc. Included with your Board packets are the customers' request forms (plural).

Tim Shaw explained to the Board that included in the packet was a request for dispute of the usage charges from the owner Dede.

Public member Dede was present for the zoom video meeting. She states she has had the same tenant for the last 10 years with the same consumption pattern. However, the last 2 billing cycles have been increasingly high. She stated after speaking with the office staff that the electronic system indicated the equipment stopped ready on August 6th and she feels there is something wrong with the District's equipment.

GM Shaw informed the public member that the District has a policy that the customer can pay to have the meter tested. If the test comes back in the customers favor, then the credit could be issued. GM Shaw informed the public member, Dede that he suggests that the bill be paid and then it can be investigated further.

Legal counsel concurred with GM Shaw that the District policy states to pay the current bill and then it can be reviewed further. GM Shaw asked Dede to reach out to him the following morning.

The Board reviewed the second customer dispute request. Director Reisig asked GM Shaw if the District ever received the customers check. GM Shaw was unsure and would ask the Board to table for the November meeting if necessary.

It was moved by the Board to table to the November if necessary.

4.1 General Manager’s Report

GM Shaw provided a written report.

No public comment on this item.

The Board made no action on this item

4.2 District Engineer’s Report – Mike Vasquez

Mike Vasquez provided a written report to the Board of projects in the works since the last meeting of the Board. The report highlighted topics of General District Engineering and Well 16 Pumping Station Construction Project.

No public comment on this item.

The Board made no action on this item.

4.3 Consider accepting the Independent Auditor’s Report for Fiscal Year 2019-2020.

Statutory requirements as well as fundamentals of transparency, fiscal responsibility, and good governance compel the District to obtain an independent audit for each fiscal year.

Once again, the audit report reflects the District’s excellence in financial reporting. As appropriate, the Management Discussion and Analysis section of the report provides perspective for the District’s financial position in a narrative format intended to objectively inform the public we serve.

It was moved by Director Ridilla and seconded by Director Reisig to approve the Independent Auditor’s Report for the FY 2019-2020. Directors Reisig, Harris, Ridilla and Green voted yes. Director Gifford was absent. The motion carried with unanimous roll call vote of 4-0-0.

4.4 Consider authorizing Legal Counsel review of agreements and similar documents associated with engaging a financial advisor services provider to explore and implement mitigations for the rapid escalations in CalPERS annual unfunded accrued liability (UAL) payments.

Dovetailing from the above described committee recommendation; CalMuni Advisors et al submitted “engagement documents” via email on October 13th. These engagement documents were more extensive and complex than previously envisioned. If the Board concludes the District should move forward and procure the finance services of CalMuni Advisors or another qualified services provider, engagement documents will need to be reviewed by Legal Counsel. Because an attorney for CalMuni drafted the documents, experience in similar circumstances shows that it is not uncommon for the review-revise-review cycles to become extensive and costly. In some cases, the money spent on finalizing the agreements is disproportionate to the stipulated charges in the agreement, e.g. \$20,000 in legal fees to review a \$30,000 contract. Due to the time constraints beset by the October 13th submittal of engagement documents, and the complexity of those documents, the agenda item associated with the Committee’s recommendation has intentionally been modified to focus on Board authorization for Legal Counsel review.

The windfall of time to review complex and legally significant engagement documents presents an opportunity to consider additional service providers (in addition to CalMuni Advisors) and more thoroughly evaluate the options for mitigating the sharp escalations in annual UAL payments. The

original thinking behind the Committee forwarding the action items including the engagement documents (sans review by Committee) was the impact of the sharp escalations in the District’s operating cost to the currently ongoing (nearly complete) cost of service analysis and rate structure study. The intension was to avoid delays and revisions in the cost of services analysis /rate study by enabling the Board to authorize and quantify mitigations for the sharply escalating operating costs associated with annual UAL payments.

The annual Unfunded Accrued Liability (UAL) payment is a minimum payment on the unfunded accrued liability. Over the past decade, skyrocketing UALs are directly responsible for cities and other municipalities declaring bankruptcy. In simple terms, the UAL is the total amount the District owes the pension fund in order for the pension fund to meet the District’s obligations to its employees (past and present) for the current set of facts, assumptions and circumstances. Even though the District may have made every one of the required normal costs payments for every pay period, an unfunded liability is created whenever something changes, e.g. the facts, assumptions, or circumstances change. In a timely example, the CalPERS pension fund investments did not perform as assumed for the past two fiscal years, i.e. the return on investment was less than 7% for both 2019 and 2020. Whenever that happens, the District’s UAL increases.

An illustration of how dramatically the annual UAL payment can increase is the difference between the July 2020 payment of approximately \$68,000 and the anticipated July 2021 payment of approximately \$82,000 an increase of more than 20%. A similar large percentage increase is currently projected for July 2022. The figure below illustrates the sharp escalations in annual UAL payments assuming the District does nothing to offset the escalations and further assuming no additional changes to the pension’s performance and assumptions, e.g. under performing, changing the default rate of return, updating mortality stats etc.



A large influence on the amount the District pays in annual UAL payments is interest. The UAL is financed over 20-years. The District’s current UAL is approximately \$1.1 million. Assuming nothing changes, good or bad, the District will pay over \$900,000 in interest for the \$1.1 million debt at 7% interest over the next 20-years. The debt the District owes to the CalPERS pension fund is the most expensive debt the District has. If the District borrowed \$1.1 million at 3.5% interest, paid down the current UAL and made loan payments instead of UAL payments, the District would substantively save the ratepayers/taxpayers money for the next 20-years. Alternatively, if the District pays down the debt faster by paying more than the minimum annual UAL payment and stipulates the Additional Discretionary Payment be applied to a specific amortization base, the resultant re-amortization would also reduce the subsequent annual UAL minimum payments.

The rate structure study and cost of service analysis has been underway for months. I have confirmed that the draft cost of service analysis performed by the consultant had inadvertently not yet contemplated large (20%) increases in annual UAL payments. The operating costs and budgets data provided to the consultant by staff for employment costs were consolidated into one figure (as opposed to expressing pay

and pension costs separately). Commensurate with the data format provided by staff, the consultant applied a conservative inflation adjustment (e.g. Cost of Living Adjustments) to the anticipated employment costs. A 20% increase in UAL payments is far greater than the typical 2.5% inflation adjustment. The consultant has confirmed the cost of service analysis, as currently drafted, needed to be revised and the recommended rates increases over the 5-years span of the rate adjustment process will need to be revised accordingly. This cause and effect presume the District does not take any mitigation measures to offset (completely or partially) the impact of the sharp increases in annual UAL payments currently forecasted by CalPERS. This is one of the reasons this topic was on the Executive Committee agenda and why Committee forwarded the service provider engagement onto the October 19th Board agenda.

The appropriate Board actions under the above described facts and circumstances would be to consider authorizing Legal Counsel review of any engagement documents related to contracting with an appropriately qualified financial services provider to explore and implement mitigations of the escalating annual UAL payments. It may be appropriate to request an estimate of the costs from Legal Counsel for such review.

It was moved by Director Ridilla and seconded by Director Green to authorize legal to review engagement document for a finance advisor services provider. Directors Reisig, Harris, Ridilla and Green voted yes. The motion carried with unanimous vote of 4-0-0.

4.6 Authorize any new Board Member Assignments (committees and other) announced by the Chair pursuant to District Policy 2.01.065.

No public comment on this item.

The Board took no action on this item.

5. INFORMATION ITEMS

5.1. DISTRICT ACTIVITY REPORT

- 5.1.1. Water Operations Report provided.
- 5.1.2. Conservation Report provided.
- 5.1.3 Completed and Pending Items Report provided.

5.2. BOARD REPORTS

- 5.2.1. Report any ad hoc committees dissolved by requirements in Policy 2.01.065
- 5.2.2. Sacramento Groundwater Authority – Harris, Reisig. Agenda provided.
- 5.2.3. Sacramento Groundwater Authority (with RWA and SCGA) 3x3- Reisig- Minutes provided.
- 5.2.4 Executive Committee – Green, Reisig - Minutes provided.
- 5.2.4. ACWA/JPIA – Ridilla - No Report

6. DIRECTORS' AND GENERAL MANAGER COMMENTS – Director Reisig brought up Sacramento Sewer rate increase Prop 218. GM Shaw stated the District would need to vote on this at the next Board Meeting held in November.

7. ADJOURNMENT

Director Green adjourned the meeting at 8:04 p.m.
Respectfully submitted,

Signature on File _____
Timothy R. Shaw, Secretary

Signature on File _____
Jason Green, President of the Board