



Date: May 21, 2015

TO: Board of Directors

FROM: Kathy A. Kivley, General Manager

SUBJECT: Agenda Item: Proposed Budget Report Agenda Item 7B-
Board Meeting Date: June 4, 2015

DESCRIPTION

President
R. Michael Wright

Proposed Budget review for Fiscal Year 2015/2016 including detailed sheets for the Funds 100, 200, 301, 400, 500, 600, 650 and 800, revenues and expenditures. Staff requests the following:

Vice President
Marshall E. Ochylski

1. Staff Presentation
2. Board Questions
3. Open the Public Hearing
4. Take Testimony
5. Close Public Hearing
6. Board Comments

Directors
Charles A. Cesena
Jon-Erik E. Storm
Louis G. Tornatzky

General Manager
Kathy A. Kivley

SUMMARY OF STAFF RECOMMENDATION

Staff recommends that the Board adopt the following:

District Accountant
Michael L. Doyle

Motion: I move the LOCSO Board of Directors adopt Resolution 2015-13 adopting the Proposed Budget for the Funds 100, 200, 301, 500, 600, 650 and 800 for Fiscal Year 2015/2016 and authorize staff to take the actions as recommended under Financial Impact and incorporated any further changes as directed by the Board.

Fire Chief
Robert Lewin

DISCUSSION

Battalion Chief
Phill Veneris

The information before you provides an overview of the Proposed Budget for Fiscal Year 2015/2016. As previously directed staff made every effort to bring the Board a balanced Proposed Budget for the upcoming fiscal year. As directed at the Special Board Meeting on Wednesday, May 20, 2015, staff adjusted the property tax to reflect a 2.94% increase as suggested by San Luis Obispo County. As before in some cases, there remains a shortfall. In those cases, staff provided the alternative for funding the shortfall. Staff is pleased to be able to present this information in a timely manner.

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In Fiscal Year 2014/2015, the Board reviewed four alternative cost allocation methodologies. The Board adopted a method for the Allocation of Administrative Cost (Cost Allocation Plan). This methodology is based on actual time spent providing personnel and benefit services, payroll, financial accounting and reporting, and human resources functions to the various funds. Once District staff closes the books in preparation for the audit, the Cost Allocation Plan is adjusted based on the actual expenditures versus the actual cash balance in the Administration Fund 100 and the transfers from the funds are adjusted accordingly. Enclosed is a copy of the Cost Allocation Plan

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adopted by the Board for FY 2014/2015 and the same recommended methodology for FY 2015/2016. Staff adjusted FY 2015/2016 based on actual time spent.

Salaries/Wages category includes monies to cover potential changes in the budget based on the on-going Miscellaneous Employee negotiations. Staff believes it is necessary to present accurate information based on the Boards' direction. The Payroll Taxes & Benefits also takes the on-going negotiations into consideration.

California Public Employee Retirement System (CalPERS) has notified all public agency employers that under GASB 68 accounting valuations, there are reports required for the upcoming fiscal year. The District has an unfunded liability due CalPERS of slightly over \$90,000. This liability accrued since the District became a member of CalPERS. Based on the recent legislation it may be necessary to begin repayment of the obligation. This obligation directly affects Funds 100, 301 and 500 and through time allocation Funds 200, 400 and 800. A portion of this liability is budgeted in the Proposed Budget and discussed under the various funds. Any changes in the employer paid contributions is presented through the Budget Message.

Staff understands the need for greater financial transparency and the lack of this prior to FY 2013/2014. Fortunately, in the District's efforts to reconcile the financials and implement appropriate tracking mechanisms, several actions by the Board in 2004/2005 and 2006/2007 continue to hamper the efforts to place the District in a positive light with those actions having long-term negative financial implications. Staff presented several negative scenarios for FY 2014/2015 that the Board took the appropriate positive actions. Staff identified additional scenarios for FY 2015/2016 that staff is planning to bring positive resolution before the Board during this year. Under Fund 600, staff continues to identify the outstanding issues.

Revenues

The property tax revenue projections for Fund 200, 301, 500 and 800 were prepared using the property tax increase rate recommended by the LOCSD Board of Directors of 2.94%. The adjusted figures are made available by San Luis Obispo County during the month of September of each fiscal year. Any additional estimated increases by the Auditor Controller are included during the mid-year budget process. The County estimates the property tax may rise as high as 5% over the prior year, however, staff has chosen a more conservative approach. It is estimated based on the County information, any CPI increase is only 1.998%, State of California Department of Finance is 3.2% and calculated CPI increase for the Special Fire Tax is 1.7%. These details are provided for your information.

Personnel Services

The District received the Worker's Compensation Program Invoice for FY 2015/2016. As previously stated during last year's budget presentation, the Special District Risk Management Authority (SDRMA) advised all Districts beginning with this fiscal year, that SDRMA is now invoicing members annually instead of quarterly. This year's rate was reduced from an Experience Modification Factor of 85% to an Experience Modification Factor of 78%. This is the third year in a row the District has experienced a drop in the Experience Modification Factor. Because the District belongs to Workers' Compensation and Property/Liability Programs, the District receives a 5% Multi-Program Discount. The District received a 15% Credit Incentive Program Discount and a 2.09% Longevity Distribution Credit. Prior to applying the Experience Modification Factor the total estimated annual contribution was \$28,218.39. After applying the Modification Factor and all credits, the total District billing is \$17,401.90.

Services and Supplies

Information Technology Services (6110) are considered a direct cost and necessary for the operation of all funds. The cost for contract services which provide security, storage and technical support is allocated based on the number of District computers in each fund. This cost is allocated per computer per fund. Additionally, this category pays for Website hosting and support. The cost for the Website hosting is shared equally no matter the space used by the respective departments to provide public information.

Fund 100, Administration

Salaries/Wages

At the mid-year staff reduced salaries and wages by \$24,659 and increased Temporary Agency Help by the exact dollar to cover the temporary employment agreement for accounting service as previously authorized. Deducting this amount from the increase projected for FY 2015/2016, the increase is \$10,663.

Payroll Taxes & Benefits

Retirees Medical is increasing as of January 2016. During the mid-year budget process any significant increases will be incorporated. Regarding the bottom line savings, all benefits were estimated based on estimated salaries/wages and the retirement costs is calculated including the unfunded liability information provided by CalPERS.

Services & Supplies

Staff recommends the appropriate reductions in Legal Services (7326) of \$10,000 as this is a direct cost identified with specific fund operations. During the review of the billing, staff works tirelessly to insure the Fund that requests the services are charged appropriately. Under Election Expense (7343), there is no budget because this is not an election year.

Transfers

As explained under Fund 600, the Administration Fund will no longer be budgeting a \$25,000 repayment of the Improvement Bond Reserve Fund per the bankruptcy order dated October 15, 2013

FUND 200, Bayridge Estates

Revenue

The District operates and maintains gravity wastewater septic collection system for the Bayridge Estates. This system collects wastewater via sewer mains within the public right of way and disposes of the waste into a septic system. The Board approved Resolution No. 2015-08 dated March 5, 2015, authorizing an Interfund Loan to the Bayridge Fund 200 from the Water Fund 500 Capital Outlay Reserve in an amount not to exceed \$125,000 to cover Phase 1 Maintenance Improvement Projects for the community septic system. It is necessary for the Fund 200 to borrow from another fund to cover the estimated cost for the Phase 1 Improvement Projects. The maintenance improvements were necessary prior to the connection to the new County facility. Once the improvements are completed and upon completion of the County project providing sewer collection services to the subdivision, the septic system will be abandoned at a cost. The assessments will remain on the parcels until the fund settles all liabilities due to the District for providing the Phase 1 Maintenance Improvement Projects, septic transition and abandonment services. As you will recall in June 2013, a Prop 218 Protest Hearing was unsuccessfully challenged. This allowed the District to increase the annual assessment from \$201/parcel to \$373/parcel. The current charge per parcel is \$373/parcel with 147 parcels which equates to receipts of \$54,831. This fund receives General Property Taxes

which were grandfathered into the Proposition 13 allocation since the Fund was receiving general taxes before the proposition passed. Repayment of the interfund loan is slated to begin after the transition and abandonment of the community septic system is complete. Staff estimates the repayment will take approximately two years. The Loan Agreement states Fund 200 will borrow the funds at the time of construction. The prior year budget reflected funds available for engineering services. Using the FY 2014/2015 budget allowed staff to reduce the total dollars necessary from an interfund loan. The assessment remains in full force and effect until all funds are repaid to the Water Fund 500.

Personnel Services

Salary and Fringe Benefit allocations are calculated at mid-year and at the end of the fiscal year. The current budget amount is based on the Fiscal Year unaudited salary and fringe benefit cost estimates average for the total year from the eight months of actual costs. District staff directly charge the hours on their time sheet per employee per fund with the fringe benefit costs based on the fringe rate for the respective employee. This method provides the accurate information based on actual costs. There is an increase proposed for FY 2015/2016. As the time nears closer for the transition to the County facility, more and more staff time is necessary to address the upcoming Phase 1 Maintenance Improvement Project. Staff plans to initiate the proposal to the County for funding to complete the Phase 2 Maintenance Improvement Project which is estimated to cost approximately \$325,000. Phase 2 must be completed prior to the connection to the County facility. Once the District receives the bids for construction of Phase 1, the Engineering Cost Estimates for Phase 2 will be adjusted appropriately. At that time staff will submit reimbursement requests to the County.

Services and Supplies

Under Legal & Professional Services any additional Capital Expenses requiring Engineering or Consultant Services will need Board consideration to determine the available funding recommendation.

Capital Outlay

Under this category, any future project requires Board consideration in order to determine the appropriate funding recommendation.

Fund 301, Fire

It is important to note there is a projected Schedule A Contract increase of 10.65% over Fiscal Year 2014/2015. The Schedule A in the prior year was \$1,709,966. The proposed Contract for FY 2015/2016 is \$1,892,162 which equates to an increase of \$182,196. The more important issue for consideration and future discussion is the lack of revenues to cover the expenditures. Staff could not anticipate the 10.65% increase in the Schedule A Contract for FY 2015/2016 nor can staff estimate the dollar value of the unfunded liability for pensions for future fiscal years. The secondarily question is what level of increase should the District expect in the Schedule A Contract and unfunded liability payment for FY 2016/2017 and what effect will the continued increases have on the District's ability to fund services and supplies at an appropriate level? Staff is unable to answer these pertinent questions at this time. However, it is important the Board of Directors recognized increases in assessments in the Special Fire Tax may be necessary in the foreseeable future to allow adequate funding for continuing the current operations or funding for any improvements in the operations. Any temporary transfer of funding or one-time infusion of dollars simply will not balance the budget over the long-term.

In preparation of presenting this budget to the Board of Directors, staff proposed two budget alternatives—proposed budget 50% reduction and proposed budget 20% reduction. A

proposed budget with 50% reductions is not feasible nor does it provide the services, supplies and training necessary for fire emergency services. This budget is proposed at 80% and does include the level of training necessary for effective and efficient operations, purchase of minimal supplies, deferment of numerous expenditures and the full complement of twenty-five Reserve Firefighter positions.

Salaries and Wages

With respect to staff, this year the Reserve Firefighters are eligible for a \$1.00 per hour salary increase to compensate for the adjustment in the minimum wage. This adjustment is effective January 1, 2016 and is included in the proposed budget. It is important to note the Reserve Firefighters are employees of the District and as such the District is responsible for human resources and payroll functions.

FUND 400, Vista de Oro

Revenue

The District operates and maintains gravity a wastewater septic collection system for Vista De Oro. This system collects wastewater via sewer mains within the public right of way and disposes the waste into a septic system. Regarding Fund 400, it is important to understand this fund will continue to reflect a deficit until the septic system conversion occurs and over a period of years the District will recoup its prior costs for maintaining the system. The Board approved Resolution No. 2014-13 dated August 7, 2014, authorizing an Interfund Loan for FY 2012/2013, 2013/2014 and 2014/2015 to the Vista de Oro Fund 400 from the Water Fund 500 General Contingency Reserve in an amount not to exceed \$30,000 to cover operating deficits. Because of the necessity to assess the conversion and connection to the new County facility for services, staff hours and expenses are increasing. Due to the residents' successful challenge to the proposed increases in June 2013 through the Proposition 218 process, there are insufficient revenues to cover expenses. The residents will continue to pay the assessment until the fund settles all its liabilities. The District needs to amend the Interfund Loan Agreement during FY 2015/2016 to appropriately cover the shortfall in the revenues from Water Fund 500.

Personnel Services

Salary and Fringe Benefit allocations are calculated at mid-year and at the end of the fiscal year. The current budget amount is based on the Fiscal Year unaudited salary and fringe benefit cost estimates average for the total year from the eight months of actual costs. District staff directly charge the hours on their time sheet per employee per fund with the fringe benefit costs based on the fringe rate for the respective employee. This method provides the accurate information based on actual costs. It is important to note that as the District moves closer to transiting the septic system to the County facility, the system requires more attention to ensure a smooth transition. These costs will continue to rise.

Capital Outlay

In order to provide the connection to the County facility for waste disposal, it is necessary for the District to contract for clean-out of all the lines. This may require Board action in the upcoming fiscal year. On a positive note, in reviewing the tapes of the televised gravity wastewater septic collection system it does not appear any major capital improvements are necessary prior to the connection to the County facility.

FUND 500, Water

Revenues

In February 2015, the Board of Directors adopted the increases in water rates effective July 1, 2015. This rate structure also includes emergency drought rates which the Board will be considering at a future date. Finally in April the Board enacted Stage 3 of the Water Shortage Contingency Plan. These actions directly affect the rates by the number of gallons used by the customers. Estimating any new revenue with the seriousness of the drought and implementation of Stage 3 with a potential consideration of Stage 4 in November 2015, is impossible. Any increased adjustments in revenues will be considered during the mid-year budget review.

Personnel Services

Salary and Fringe Benefit allocations for Funds 200, 400 and 800 are calculated at mid-year and at the end of the fiscal year. The current budget amount reflects the appropriate reductions based on the estimates shown in the other funds. The salary and fringe benefit cost estimates include the information from the prior MOU negotiations, merit increases due and any other adjustments authorized by the Board. District staff directly charges the hours on their time sheet per employee per fund. This information is used to charge Fund 200, 400 and 800 with the proper credit to Fund 500.

The unfunded liability for Miscellaneous Classic employees for pension costs as it relates to CalPERS was budgeted. All pension adjustments were made and included in the fringe benefit costs as known at the time of preparation of the Proposed Budget.

Services and Supplies

Under Equipment & Tools, staff recommends the purchase of a minor tool called an electric valve turning tool for use by the crews for the proper valve exercising program. The current practice of using hand held equipment contributes to safety hazards as well as the potential valve stripping requiring replacement. All valves are turned annually.

Under Insurance, Licenses & Regulatory Fees, there is a \$9,000 increase proposed for FY 2015/2016. The fees are increasing for San Luis Obispo County Environmental and Public Works, SWRCB (water permit), Air Pollution Control District and various other regulatory agencies.

Under Legal & Professional, \$25,000 is discussed under the Capital Outlay description and the balance is relative to staff's intent to finalized the ISJ during the this fiscal year if not prior to the end of Calendar Year 2015.

Under Rent and Utilities, the majority of the recommended increase is for Brine Disposal for the Nitrate Treatment Facility.

Under Repairs and Maintenance, the reduction in maintenance on wells separates the cost from maintenance of distribution system for better tracking. Any extensive repairs to the District's well are reflected under professional services.

Capital Outlay

As a reminder the Board adopted a Water Capital Improvement Project (CIP) in September 2014. This list delineates multiple projects in various categories. This CIP was also incorporated in the Water Rate Study adopted in February 2015. The Capital Improvement Project for Infrastructure includes two items from the Basin Plan (ISJ) and the approved Capital Improvement Projects List from the Water Master Plan. Staff budgeted \$50,000 for the intertie project with Golden State Water Company (GSWC). That project's design is in the hands of

GSWC at this time for slight modifications. The District intended to complete the intertie project prior to this fiscal year (14/15). The \$150,000 is to allow staff to work towards construction of the upper aquifer well at 8th Street and El Moro. The design and permitting is estimated at \$60,000 according to Table 6 of the Water Rate Study. This project is on the list of the high scoring priority projects for the County of San Luis Obispo's Integrated Regional Water Management (IRWM) Plan. Staff plans to apply for the third round of available grant funding (Prop 84). In order to score higher points on the District's application, the District project must be "shovel ready" by April 1, 2016. Staff previously initiated the environmental process on this CIP in order to facilitate obtaining a coastal development permit. In the FY 2015/2016 budget staff allocated monies for the engineering process. Should the District be successful in securing the grant, this money will offset construction costs and possibly some engineering services cost. Approximately \$30,000 (5% of estimated total) is available for matching funds. Any matching fund commitment of up to 25% earns additional points on the grant application which helps in the decision process by California Department of Water Resources (DWR). The grant applications are due to DWR in August 2015. These two projects are budgeted in Infrastructures in an amount of \$150,000 and Professional and Consulting Service in the amount of \$25,000 both funded from the Capital Outlay Reserve.

The District continues the on-going replacement of water meters. This replacement is part of the recently adopted CIP list. Staff is recommending \$50,000 under Equipment & Tools, Meters Purchases & Replacements. This project is listing as a multi-year project in the CIP and is funded from the Capital Outlay Reserve.

In FY 2014/2015 budget, funds were allocated for architectural design for Phase 1 of the renovation of the Water Yard Facility at 953 El Morro Avenue, Los Osos. As the Board is aware the house serves as facilities for the Utility Crew. The final drawings for the Phase 1 construction are under review--bathroom, kitchen/staff break area and office space renovation and Title 24 improvements. Phase 2 includes additional Title 24 improvements, roof expansion and crew office renovation. Phase 3 includes remodel of the existing shop. This project was included on the recently Board adopted CIP in September 2014. As incorporated in the CIP, this is a three to four year phased project and is funded through the Capital Outlay Reserve in the amount of \$45,000 and reflected in the budget under Building, Structures & Improvements category.

Reserves

Based on the District's adoption of the Capital Improvement Project list, projects were included in the adopted Water Rate Study. Upon completion of the FY 13/14 Audit, it may be necessary to address the remaining cash balances in Funds 200, 400, 500 and 800, and allocate appropriately. The adopted Water Rate Study for Fund 500 states the minimum Fund Reserve target should be established by projecting 25% of the total operating, maintenance and debt service expenses for the prior year plus \$500,000 for emergency capital reserves. During the upcoming year, with the drought, water conservation efforts and potential loss of revenues, staff will analyze this formula and present information to the Board including modification to the existing Reserve Policy.

Fund 600, Wastewater

This Fund 600 collects special assessments on all property owners within the sewer prohibition zone for payment for the amortization of wastewater (WW) bonds authorized in 2002. This fund was used to account for the construction of a proposed sewage treatment plant which was halted. Under special legislation AB 2701, the project was transferred to the County of San Luis Obispo. On March 15, 2011, the County officially accepted the project.

In 2006 a trust account was established and transferred to US Bank to receive the 2002 WW Bond Assessments directly and issue the bond principal and interest debt service payments. All Wastewater Assessments are transferred directly from San Luis Obispo County Auditor-Controller to US Bank and the bond payments are paid by US Bank. In FY 2006/2007 the District Board prematurely borrowed from the Improvement Bond Reserve to make the bond payment. A Letter of Agreement, dated in October 17, 2006, established a repayment plan of \$25,000 per year. Contrary to the agreement, it appears the \$25,000 payments did not begin until FY 2009/2010. From the early analysis the District potentially owes money for FY 2006/2007, 2007/2008 and 2008/2009 totaling \$75,000. At the time of this writing, the reconciliation and analysis with US Bank is on-going. According to a letter dated October 17, 2006, the \$25,000 payment was being held by the District and to be transferred. Subsequent information states the payments of \$25,000 per year for FY 2007/2008 and 2008/2009 were also budgeted; however according to the Bank Statements and the District's financial records, no transfers were made for FY 2006/2007, 2007/2008 and 2008/2009. Staff is in receipt of bank statements dating back to November 2006 in an effort to insure the proper recording of the \$25,000 payments. All Bank Statements for Improvement Bond Reserve and Bond Redemption Fund since November 2006 until March 2015 were reviewed and all transactions verified. The three fiscal years outlined above were not paid to US Bank.

All interest earned on that Improvement Bond Reserve bank account is required to be reinvested into the Improvement Bond Reserve bank account and the District is able to calculate that interest towards the repayment. Based on the Board's direction, Wallace Group calculates an administrative charge as a cost for handling the assessment. The Administrative Charge is added to the wastewater assessments as allowed by the Bond Resolution to fund direct costs of maintaining this assessment (FY 2007/2008 budget statement).

On October 15, 2013, the Honorable Robin L. Riblet, Judge, United States Bankruptcy Court, Central District of California, Northern Division issued an order granting the motion for approval of the Second Amended Plan for Adjustment of Debts (Amended Plan). This Amended Plan as stipulated to by all the parties resolves all the lawsuits and claims arising from the District's former Wastewater Project. Under Section 7.1 Class 5(B) MBIA filed a claim (119) arising out of the bonds that were issued by LOCSD to fund part of the OLD Project (WW 2002 Bonds). The bond indenture required LOCSD to maintain certain bond proceeds in reserve and segregate them into the Debt Service Reserve Fund (LOCSD Improvement Bond Reserve Fund-US Bank). "Instead, LOCSD pooled the reserve funds and spent them for other purposes"¹. In full satisfaction of its Allowed Secured Claim, the trustee shall be paid \$25,000 per year from the annual assessment overhead charges collected by San Luis Obispo County until the Secured Claim is paid in full without interest. The inclusion of this repayment plan in the Bankruptcy Order substitutes for the Letter Agreement dated October 17, 2006. This annual payment will be made by the County of San Luis Obispo at the time the County collects the assessments and makes payments to the US Bank. With this knowledge, it is recommended to raise the Administrative Charge to \$12.00 per parcel to allow total repayment to the Bond Redemption Reserve account. That equates to one dollar per month per parcel. This allows the District to make the missing payments for the three fiscal years as outlined above over a three year period and make the \$25,000 payment per year as order by the Court. After the three year period and payment for the missing years, the Board could choose to reduce the Administrative Charge to \$6 per parcel to cover the \$25,000 payment. The 2002 Wastewater Bond reserve was established at \$1,158,500. At the rate of \$25,000 per year, it will take approximately six to eight years to repay the Improvement Bond Reserve Fund. All monies generated from the Administrative Charge must be transferred as repayment to the Improvement Bond Reserve

¹ Amended Plan, Section 7.1 Class 5(B)

Fund per the bankruptcy order until the required Reserve balance reaches the total of \$1,158,500.

Staff is presently working with US Bank to reconcile the two accounts: Improvement Bonds Redemption Fund and Improvement Bonds Reserve Fund. In preparing the reconciliation, staff determined the District records reflect the totaled required payments were never paid. In January 2015, the FY 2013/2014 payment was made. In February 2014 the payments for FY 2009/2010, 2010/2011 and balances due for FY 2011/2012 and 2012/2013 were paid. Fiscal Year payments for 2006/2007, 2007/2008 and 2008/2009 were never paid according to the District's financial records. It is the District's responsibility to make the past due payments and reestablish the District credit worthiness. The District records do not reflect payment. Staff is currently reviewing the bank records together with US Bank Trustee to determine if this lack of payment is accurate and the correct balances for the Reserve Fund and Redemption Fund are correctly shown.

On April 12, 2004, the LOCSB Board of Directors authorized the execution of a Main Installation Agreement between the Los Osos Community Services District and Bonaire Investments (Agreement). This Agreement involved transfer to the District once designed and constructed a Sewer Mainline Extension and associated facilities within South Bay Boulevard (Bay Oaks Drive to Los Osos Valley Road) to serve the Bonaire Property and properties located up-slope from the Mainline Extension. The Bonaire Property is located within the Prohibition Zone and the District's Wastewater Treatment District No. 1. District No 1 is an Assessment District established by the District to partially finance the design and construction of the District's Wastewater Treatment Project. The Bonaire Property has a total assessment of thirty thousand three dollars and thirty-nine cents (\$30,003.39). The 2004 District Board agreed to transfer, operation and maintenance of the Mainline Extension and to provide services to the collection system for the Wastewater Treatment Project. This 2004 District Board agreed to reduce the assessment attributed to the Bonaire Property in the amount of thirty thousand three dollars and thirty-nine cents (\$30,003.39) in exchange for the completed infrastructure project thereby making the District liable for the payments. The LOCSB is paying the current assessment for the Bonaire Properties, APN 074-314-10 and APN 074-314-011 and has made the payments since Fiscal Year 2005/2006 or Year 4 of the assessments. To date the LOCSB made payments totaling \$15,235.18. The payment for Fiscal Year 2013-2014 paid normally at the beginning of the following fiscal year, was not paid. The payment amount is \$1,688.80. Staff reconciled the Assessor Parcel No. accounts since the first payment was paid in FY 2005/2006. In order to accurately reflect any assessment payments due, the respective commitment to pay the on-going assessment requires a budgeted expenditure. In other words, this expense should be budgeted yearly as a cost to the LOCSB. This expense was never incorporated within any budget since its inception. Until staff completed the reconciliation, this on-going expenditure was unidentified and paid from prepaid assessments (those assessments paid off after placed on the various APN on the tax rolls).

In addition to the necessity of budgeting for this ongoing assessment payment, there were five common area parcels that were no longer subject to tax collection and required payment by the District. It appears from the reconciliation the payments were excluded from the budgets as identified above and the assessment payments were made for the parcels. The assessment payments for the five parcels since Year 6 or Fiscal Year 2007/2008 is \$998.50. As with the two larger assessment payments, the payment of \$132.30 remains outstanding at this time.

Once the analysis is complete regarding the District's commitment to make the Bond assessment payments as identified, the appropriate budget considerations identified, on-going obligations resolved and payment options determined, the cash payments will be processed. It is important to note the correct dollar balances are in the Prepaid Assessment Reserves. Staff

made the required cash transfers and general ledger adjustments to insure adequate funds. It is important to note, staff is conducting on-going conversations with the US Bank Trustee and the Trustee is now aware the District is retaining a Prepaid Assessment Reserve. According to the bank Trustee, there is question as to the validity of the District retaining these funds. Once the bank account reconciliations from 2006 forward are completed, there will be discussion on handling the Prepaid Reserve Fund

As stated above, staff is presently working to determine the actual balance for the Improvement Bond Reserve Fund. The staff is working with the trustee from US Bank and currently reviewing old bank statements to determine the dollar value of the appropriate deposits for each of the respective accounts. Once complete, together the trustee and staff will determine the dollar value of the Improvement Bond Reserve Fund. All other funds belong to the Bond Redemption account. Unfortunately for the District, Standard & Poor's underlying rating (SPUR) is based on multiple factors including the ability to maintain the required Improvement Bond Reserve balance. At the time of this report dated March 13, 2015, the Improvement Bond Reserve Fund reflected a balance of \$751,664 of the required \$1,158,500. Because of this situation and other factors (recent bankruptcy) the rating service issued a rating of BBB- and views the outlook for this rating as stable. It is staff's goal over FY 2015/2016 to show exceptional progress in the reconciliation and repayment based on the Court-ordered decision.

This Wastewater Fund 600 currently functions for two purposes: 1) to service the debt associated with the aborted project and 2) to repay the "spent for other purposes" monies from the Improvement Bond Reserve Fund. Now that the bankruptcy case is closed, this fund officially changes to a debt service fund for the Wastewater Assessment District No. 1. Beginning FY 2014/2015 this fund functions as the debt service fund for the bonds; however there are costs associated with the financial management and reporting of the fund, continued inclusion on the San Luis Obispo County Tax Rolls and reconciliation with US Bank. As such the time associated with this fund from a cost allocation perspective still remains. The fund will continue to operate at a deficit and therefore the District needs to cover the costs associated with this operation.

Revenues

The total value of the bond assessments was unknown at the time of printing this information. The assessments will be updated upon receipt of the information from the Wallace Group. The budget dollar value shown is the total collected in FY 2013/2014 per the County information.

Services & Supplies

There are expenditures to this fund for the on-going preparation of the yearly bond payments to be placed on the County tax rolls. There are trustee costs associated with administration of the two bank accounts by US Bank: Bond Redemption principal and interest and Improvement Bond Reserve Fund. Those costs will continue until the 2002 WW Bond is completely paid. As parcels owners continue to pay off their respective assessment balances, staff time remains a factor in processing the payments, lien release and other documents. This information remains reportable to all entities. The category Bank Service Charges reflect the transfer of funds from the Bond Redemption bank account to cover the trustee fees for the fiscal year. According to the bank statements these charges normally occur during the third quarter of the fiscal year.

Fund 650

Transfers

There is a current Reserve balance in this fund. Until all Reserves are eliminated financial accounting and reporting both from the District's perspective as well as the State of California,

financial information is required. There is money reflected which is associated with the on-going reporting of the financial operations of this fund.

Fund 800, Drainage

Personnel Services

Salary and Fringe Benefit allocations are calculated at mid-year and at the end of the fiscal year. The current budget amount is based on the Fiscal Year unaudited salary and fringe benefit cost estimates average for the total year from the eight months of actual costs. District staff directly charge the hours on their time sheet per employee per fund with the fringe benefit costs based on the fringe rate for the respective employee. This method provides the accurate information based on actual costs.

Services and Supplies

Under Legal & Professional additional funds are required for the additional work necessary for compliance on the MS4 permit.

Under Repairs & Maintenance, Grounds & Collection Systems, staff recommends the funding of the annual chipping event for the Fire Department. Staff was potentially notified the Fire Safe Council may not be able to provide adequate funding for FY 2014/2015 and FY 2015/2016. Staff feels this program is extremely important in reduction of drainage issues in the Los Osos community.

FINANCIAL IMPACT

Fund 200, Bayridge Estates – Based on the proposed budget, the expenditures exceed the revenues. It is important to note as with FY 2014/2015, the Board authorized staff to only fund the Decommission Reserve after covering the expenditures with the existing revenues and utilizing prior revenues to cover the remaining shortages. Kindly note, affecting this same direction this year, removing the Decommission Reserve, the Proposed FY 2015/2016 Budget balances. Staff requests the Proposed Budget be adopted as shown with this same direction to staff. This allows the staff after covering the expenditures to place the remaining funds in the Decommission Reserve.

The Fire Fund 301 is experiencing a dramatic increase in the Schedule A Contract and CalPERS unfunded liabilities. Staff recommends future discussion regarding a potential increase in the Special Fire Tax and possible development of other alternatives. The Proposed Budget is balanced.

Fund 400, Vista de Oro – Based on the proposed budget, the expenditures exceed the revenues. Currently Fund 400 is operating on monies loaned from the Water Fund 500 per Board authorization in August 2014. Fund 400 has exceeded the \$30,000 limit and it will be necessary for staff to present amended documents to increase the borrowing authority to the Board in the near future. Staff recommends adopting this budget as presented with direction to staff to return with amended interfund loan documents. An alternative to providing additional loan funds is attempting to conduct another Proposition 218 process. Staff does not recommend this alternative as connection to the County facility appears to be in the very near future.

Fund 500, Water -- Based on the proposed budget, the expenditures exceed the revenues. The Capital Outlay Reserve for Fund 500 is recommended to reimburse the operating fund in the amount of \$270,000 for the on-going and new CIP recommended allocation. Staff recommends the Board provide this direction and with this direction the Proposed Budget for FY 2015/2016 for Water Fund 500 reflects an estimated positive balance of \$18,721.

Fund 600 continues to incur costs associated with the operation and reconciliation of this fund. Until the scheduled repayment plan is financially completed with the Improvement Bond Reserve Fund fully funded at \$1,158,500, the Administrative Charge must be allocated to the repayment plan. This means the District must fund any costs associated with the operation including the administrative allocation. Once the Bond Reserve is fully funded, the District may recoup its costs previously incurred over time. Staff recommends the Board provide direction to staff to return with an interfund loan agreement for this purpose. Staff also recommends the Board approve the budgeting of the costs associated with the Sewer Main Extension Agreement so the costs for FY 2013/2014 may be paid and recommends that staff returns with expected costs based on options. Additionally staff recommends once the report from Wallace Group is received regarding the anticipated revenue for FY 2015/2016, the Budget for FY 2015/2016 be adjusted to reflect the estimated revenue. Finally, staff recommends the Board authorize the collection of \$12 per parcel as the Administrative Charge for FY 2015/2016.

Fund 650 incurs only minor costs because of the requirement to continue to report the General Contingency Reserve. Staff recommends the Board direct staff to bring to the Board options for the use of the balance of the General Contingency Reserve.

Fund 800, Drainage – Based on the proposed budget, the revenues exceed the expenditures. Staff recommends adopting this budget as presented.

Attachment: Copy of Proposed Budget Fiscal Year 2015/2016