



Los Osos Community Services District

General Manager's Monthly Report

September 15, 2016

Honorable Board of Directors,

This report presents a summary of general administrative, operating and other information covering the prior month's activities, and which are important to gauging how well the Los Osos Community Services District (LOCSO) is doing in providing the public services to our community. This report also includes highlights of recent District accomplishments, news of general information and items on which the Board may wish to focus attention in the coming months. This document is intended to supplement the information provided in the current Utilities and Fire Department Activity Reports.

Status Updates

Summarized below are updates on Board directives and other general management activities:

Office Relocation Consideration

We continue to work out the details internally for a planned expansion and renovation of the existing 9th street office to provide better work areas, a break room, handicapped accessible restrooms as well as an integrated Board meeting room and Board closed session office. This project involves:

- Lease of the existing bicycle shop to the right of the office which is approximately 1700 square feet
- Abandonment of the upstairs office space
- Renovation of the existing office space to provide more productive and ergonomic work areas, better airflow and circulation (which may involve installation of some form of heating and conditioning system)
- Conversion of existing internal offices to file storage reducing offsite storage costs and increasing access to records
- Installation of a permanent Board and committee meeting room of adequate size to accommodate most every Los Osos meeting crowd size. The integrated Board meeting room reduces copies and copy time required, meeting setup time and effort, allows for more efficiency if records or other copies are needed during a meeting. Annual cost savings are realized by reducing community center rental costs, (proposed) reduced video costs due to greatly reduced meeting setup time, as well as staff time for meeting setup and teardown, which normally occur on overtime currently.
- Improve ease of video recording meetings as the Board room can remain set up for rapid setup of any and all Board meetings and functions desired
- The building owner has agreed to contribute toward the cost of facility improvements and will lease the new space at a cost per square foot less than the current rate

All in all, this project achieves the goals of staff to reduce meeting cost and increase related efficiency, improve the physical office environment and improve public access to meetings of the Board. The new lease deal also comes with parking spaces dedicated within the parking lot, increasing staff and office visitor safety. The project will be completed within the lease terms and conditions established by the Board and within the 2016/17 fiscal year budget. Staff is prepared to place authorization of the new lease

agreement on the October 2016 Board agenda for approval.

Transparency Certification

We have satisfied all of the requirements of the California Special District Leadership Foundation and CSDA for receipt of the Transparency Certification of Excellence. We are currently in the process of peer review of the documentation and our transparency program, and will hopefully achieve this award in the next month.

Financial Highlights

No IRS or EDD fines issued: Although the District received notification of potential penalties and fines from the Internal Revenue Service (IRS) and Employment Development Department (EDD) due to missing filing deadlines and other matters, we have received **no fines** due to the fast action on the part of management, our accounting team and with office staff support to remedy the delinquent situation. **No** fines or penalties will be levied by these agencies against the district for the previously reported delinquencies. District office staff stepped up and assisted greatly in this effort by locating documentation and completing information requests immediately. Great work by all!

Status of 2015/16 Fiscal Year Audit: The District auditor, Adam Guise, C.P.A. of Moss, Levy & Hartzheim LLP will be on site at the District to perform the interim field work on October 20 and 21, 2016 and the year-end fieldwork on November 14 through 16, 2016. With this schedule and without significant changes in staffing over the next three months, the audit will be completed for the Board's December 2016 or January 2017 Board meeting. The required annual State Controller's Report of Financial Transactions and Compensation Reports will be prepared by the District contract accountant and submitted by the deadline in the first week of October 2016. Management recommends that the Board President and Vice President meet with the General Manager, Accountant and Auditor on October 20 for an audit Entrance Conference to discuss the scope and timeline of the audit and to outline any areas of concern or interest for a more in depth evaluation in the audit process.

Board Financial Reports: Management is pleased to submit for your initial review a slate of updated and accurate financial reports. This effort has involved a solid effort of the contract accountancy firm for their technical expertise, coupled with nearly the full time efforts of your General Manager and Administrative Accounting Tech III. The last four months have involved:

- Review and interpretation of existing policy, past Board actions, financial services agreements with various consultant contractors and the County. Many times this involved review of a series of decades old agreements with the county and related Board actions, clarifying conversations with County staff and extensive records and Board action research
- Reviewing past financial transactions and making adjustments for accuracy, correct intent clarity in purpose and compliance with our Board policies, Government Accounting Standards (GASB requirements), Generally Accepted Accounting Practices (GAAP) and the Government Code
- Interpreting the actions and catching up on incomplete work of the Accountant of the past two years coupled with varying levels of accounting understanding and style spanning the last four years.

The tardiness of this report and the financial reports delivered during the September Board meeting week is the result of a last minute push to complete production of the Fund Balance Recap and Reserve Schedules; the result of this intensive process described above. We are pleased to present these reports for your review and understanding of the District finances. You will also see that these reports contain recommendations for several financial policy amendments and actions of the Board to clarify and codify the Board's financial expectations as well as the structure and process to ensure that the District financials DO NOT fall into the condition of the past. The reports presented are further defined in the associated staff report. Staff suggests that a full overview of the financial accounting system and reports

be presented by management at the October 2016 Committee and Board meetings.

District Wastewater Assessment District #1 Reporting and Bond Rating:

As previously discussed, the District's bond rating has been suspended pending the completion of what is called a "Continuing Disclosure Report". This report was required for the first time beginning in late 2015 and the District did not have the internal expertise to complete the report, nor did we have a qualified consultant on board to assist in preparation of this very specialized report. We must meet all ongoing disclosure requirements to maintain a positive bond rating. Management determined early on that we did not have the expertise either internally or with the Wallace Group to comply with all bond disclosure requirements. Having successfully managed two 1915 Assessment Districts in the past, I was keenly aware that especially in small districts with limited and changing staffing, an experienced Assessment Administration firm is needed from the formation of the assessment district, through its maturity to ensure proper reporting and compliance.

On July 7, 2016 the District entered into agreement with NBS Government Financial Group to complete the Report and assure that the District bond rating is restored. The Report was initially scheduled for completion on September 9, 2016, but has been delayed until the week of September 19 due to delays in receiving information from the Wallace Group and the County Tax Collector. Please look for a public notice to be issued when the Report has been submitted and District Bond rating returned to positive.

Status of 2016/17 Fiscal Year Board (Budget Related) Directives:

The following direction was given by the Board at its August 17, 2016 meeting. To keep us all informed and on track, the status and progress on each of these directives will be reported in the monthly General Manager's Report, starting below:

Within six months:

1. **Ensure that the District's Water service is self-funding within 3 years; pays its proportional share of the overhead/administrative costs and is not overly reliant on property tax subsidies**
 - a. **Complete accurate financial reporting** – As of this month, we have clarity on how the district has performed financially over the past 3 years, including the amount of reserves funded, revenue and expense trends and major influences on water service expenses. The Board will see that the water fund has both restricted and unrestricted fund balances with which to fund reserves and critical projects.
 - b. **Forecast Revenue and Expenses** - Using the 2014 Financing Plan as a starting point, update the water revenue and expense projections for the next five years, based on the new "norm" for average water consumption, using the past six month's consumption data.
 - c. **Understand and Evaluate Property Tax Allocations** – The Board has discussed its interest for the water service enterprise to be self-supporting; meaning rates and charges cover operating expenses. First, the Board will be updated on the amount of property taxes received for water service, where it is derived and any policy, statutory or regulatory restrictions on its use in funding services. Second, using the financial forecast above, the calculation of water rates with and without the property tax subsidy should be calculated and evaluated in committee and by the Board. Last, if the property taxes are to be moved from the water enterprise, the Board must make an informed determination on property tax reallocation. It is recommended that management review the property tax allocation practices of other multi-service districts and work with the committees and Board in identifying the highest priority for its allocation.
 - d. **Verify Capital Projects, Priorities and Operating Expenses** – Using District committees, a thorough review of the relevancy of the capital project list and its priorities should be completed, and staff will evaluate every operating expense seeking opportunities for cost savings, efficiencies, consolidation of efforts, partnerships and other means to reduce and stabilize expenses.

2. **Reduce the allocation of administrative /overhead expenses to the District Fire service to 8.5%**
 - a. Do we actually have a higher than normal administrative cost allocated to the fire department? Is operating a single purpose (fire) district less expensive than being part of a CSD? How do we ensure that the administrative expense of the District is distributed in compliance with law and constitutional requirements to avoid a Proposition 218 violation claim? Management’s goal is to provide the committees and Board with information regarding administrative expenses, including the cost to operate single purpose (Fire) districts and the allocations of other multi service entities. Reducing the administrative expense to an arbitrary 8.5% will result in creative reallocation of the remaining administrative costs to other services. The answers to above questions will be reviewed in upcoming committee meetings.
3. **Evaluate and report the effects of 4.0 Staffing on revenue, on service level, and on the ISO rating**
 - a. An overview report on this matter has been prepared by the former Fire Chief. Management recommends that the ESAC review the staffing report at its next meeting and begin the evaluation process.

As soon as possible:

1. **Evaluate and make accurate the Administrative Cost Allocations**

To accomplish this Board directive, first we will need to better understand the overhead/administrative costs and trends of the District and compare those to both industry standards and those of our similar neighboring districts. Secondly, we need to understand what administrative/overhead activities consume what amount of available administrative staff time and to what extent these activities drive “indirect” administrative expenditures such as Board and Committee meeting expenses, elections, office lease and utilities. Lastly we need to develop an allocation methodology based on the above that can be updated annually based on changing administrative activities and costs. I am in the process of evaluating the cost allocation plans of other multi-service CSDs, and preparing Board and Committee presentations on this topic to increase understanding and evaluate options.

 - a. **Administrative Cost Allocation Plan** - Please find attached the Administrative Cost Allocation Plan used in the 2014/15 fiscal year for distribution of overhead and administrative costs to the district’s various services. In the Allocation Plan, you will see the many tasks listed for the General Manager, Accountant and Administrative Accounting Assistant III, as denoted by “X” marks next to each listed task. The plan lists a total hours worked by employee in each of the services, but no narrative, calculation or justification is provided linking the listed hours to the tasks identified as performed. There is no way to either validate the hours listed or update them for new or changing circumstances. I am in the process of developing methodologies to document the time spent in each task, and the drivers behind the time.
 - b. **Administrative Staffing and Organization Evaluation** – Comments from the Board regarding being overstaffed in the office were recently made based on a previously completed staffing evaluation. In order to determine the appropriateness of our administrative budget and costs, the Board must be made aware of responsibilities and requirements of office staff with the current District services and their governance and administration. Management will produce a detailed description of the work requirements for District administration, their complexity and staff experience/qualification requirements, work currently being completed and gaps in our ability to perform all necessary work, if any. We will also evaluate the opportunity for restructuring of office staff to better meet the administrative requirements identified above; as well as evaluating all potential administrative cost savings opportunities.
2. **Clarify and identify the surpluses in und accounts being carried over to subsequent years; and how the District funds the reserve accounts.**
 - a. This September 15, 2016 Board packet contains updated reports on reserves and fund balances that address this question. In addition, the reports contain recommended Board actions to further clarify reserves and fund balances and their financial management.
3. **Report at the next Board meeting as to how Bayridge will be balanced; how the Administrative budget will be funded from Wastewater; and the Admin Allocation from Parks and Recreation.**
 - a. **Bayridge** - Included in this Board packet is a Fund Balance Report that estimates the amount of

additional loan necessary from Water to Bayridge to cover the accumulated fund deficit and required projects. We are still in discussions with the County regarding their potential payoff to the District of the Bayridge loan and recovering the loan cost through their rate structure. There will be no additional expenses for Bayridge in the 201/18 fiscal year, and management recommends updating the loan resolution in September 2017 when the final actual loan amount can be most accurately determined.

- b. **Wastewater Administrative Costs** – Based on the fiscal year end 2015/16 figures, staff recommends that a wastewater budget be adopted in October 2016 and funding the administrative expenses with the positive cashflow as they have been in past years.
- c. **Park and Recreation Administrative Costs** – Administrative expenses are normal and customary to be recovered by allocation of a portion of the service’s revenue in the form of fees, charges, taxes and assessments. The Park and Recreation Reserve was funded through property tax allocations intended for park and recreation services in Los Osos. Evaluation of the community needs for services takes a certain amount of administrative effort, and allocating a portion of the District overhead to Park and Recreation is completely appropriate from a legal, accounting and special district procedural perspective. In fact, a water customer of the District could argue under Proposition 218 that the cost of the General Manager’s time attributable to the Park and Recreation evaluation MUST be covered by revenue sources other than water fees, such as property taxes or appropriate Park and Rec reserves.

Other Activities

- **California Special Districts Association (CSDA)** – I attended the CSDA Board of Directors meeting on September 2, 2016. This bi-monthly four-hour meeting covers many topics of importance to LOCSO including legislation, legal matters, educational needs and opportunities and other resources to keep the District solvent and operating efficiently. Our firm administrative staff, Chalyse Drake (soon to be Chalyse Behm) and I will be attending the CSDA annual conference in San Diego starting on October 10, 2016. I am instructing a session at the conference on consolidation of small districts. The purpose of the session is to prepare larger utilities for the potential mandate for their absorption of smaller, dysfunctional water systems as a condition of receiving state funding, including grants. The session will also help managers and directors of smaller districts identify the potential benefits of consolidating with neighboring entities if cost savings or other efficiencies can be realized.
- **Attended Manager’s Meeting** – August 17, 2016 attended meeting of the special district managers from throughout the county. This venue has been formally set on a quarterly basis as a forum to share experiences, successes, thoughts and review opportunities to educate managers, Board members and communities on the good work and role of special districts and their leaders.