



August 29, 2022

TO: LOCSD Finance Advisory Committee
FROM: Ron Munds, General Manager
Julian Metcalf, Administrative Services Manager

SUBJECT: Agenda Item 6 - 08/29/2022 FAC Meeting
Authorize the Purchase of Payroll Modules for the MIP Accounting System and their Implementation in an Amount Not to Exceed \$31,185.

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DESCRIPTION

This item requests that the Board authorize the purchase of payroll software for the existing MIP accounting system and implementation services. The proposed software would replace the current payroll software with one integrated into our accounting system and pose less risk the District. The cumulative cost of the request is not to exceed \$31,185. It also requests that the Board authorize transfer of \$16,815 from the Administrative Reserves for Information Technology Account and the transfer of the budgeted election cost, \$15,000 (GL 7343), to fund the software and system integration costs.

STAFF RECOMMENDATION

Motion: I recommend to the Board, that the Board:

- 1. Authorize the Purchase of Payroll Modules for the MIP Accounting System and Their Implementation in An Amount Not to Exceed \$31,185; and**
- 2. The Transfer Of \$16,185 from the Administrative Reserves for Information Technology Account and \$15,000 from the Election Cost (GL 7343) to fund the software and system integration costs; and**
- 3. Authorize the General Manager to enter into an agreement with the selected vendor.**

DISCUSSION

History of Current Software

In 2019 staff was notified that the District's then current payroll software, Sage ABRA, would no longer be serviced. In September 2019 the Board authorized the purchase of implementation services to configure a web-based payroll and human resource management system known as Criterion HCM. Due to staff turnover at Criterion, and our contracted support vendor DSD Solutions, and frequent system changes by the software vendor, the Criterion payroll system has caused frequent payroll errors for the District. The errors include, but are not limited to the following examples:

1. Inaccurate tax calculation and reporting.
2. Erroneous and inaccurate leave balances.
3. Deductions miscalculated or erroneously skipped.
4. Problems implementing annual cost of living adjustments.

Because of the payroll system errors, staff have routinely kept separate records to verify the accuracy of the payroll system, and invests significant time verifying

and correcting payroll information in the system every pay period. Keeping the current payroll software puts the District's reporting accuracy at risk for taxes and CalPERS reporting requirements, costs the District additional staff time, and is a source of frustration and mistrust among staff.

Recommend Implementing a Solution Integrated with MIP Accounting System

Staff reviewed a variety of payroll solutions and software options, discussed further below, and believe using the payroll modules from our existing accounting software provider, MIP, would be the best solution. The District has used MIP for its accounting software since 2005. MIP specializes in modified fund-based accounting software for the public sector. Staff reports that MIP has been reliable and provided responsive and effective customer support over the years. By purchasing and configuring MIP's payroll and related modules the District would have the benefit of close integration with our financial system and benefit from MIP's proven reliability.

Estimated Costs of ownership and implementing MIP for payroll

The District currently owns licenses for MIP accounting software and hosts it on the District's server. A similar approach would be taken towards the payroll components. The one-time cost to purchase the payroll software components would be between \$8,4700 to \$9,185 depending on the specific configuration. Ongoing maintenance and support costs for the software would be between \$2,296 to \$2,775 depending on configuration. The new ongoing costs will be lower than the \$6,800 currently paid for software cost for subscription pricing, maintenance, and support.

To configure and implement the software there are additional one-time costs. The District received multiple informal quotes that suggest these onetime costs would range between \$12,930 to \$22,000. However, these costs could be lowered if the District staff spends time working with the potential vendors to refine the proposed scope of work and negotiate the price lower. The not to exceed amount \$31,185 is based on the highest informal quoted cost for both the software purchase and implementation services.

Some of the cost could be offset in our budget by \$15,000 that was budgeted in Fund 100 to pay for possible election costs that will not be incurred. The remaining \$16,185 of the estimated maximum onetime costs could be paid from the Administrative Reserves for Information Technology. The reserve was created in 2012 [Resolution 2012-09 attached] to fund "acquisitions and upgrades of softwares, hardwares, and systems that used to provide central services to all funds of the District." The Reserve currently has a balance of \$20,741.40.

Alternative Options Considered

Staff have reviewed a variety of alternative systems that range from web-based software, outsourced payroll services, to on-premise software. While the District is small, it is subject to a variety of payroll and tax rules that vary between employees. Many of these rules differ from other industries, and do not lend themselves to off-the-shelf solutions without significant configuration. It was determined that using most web-based or outsourced solutions would still require a significant investment of ongoing staff time to monitor and verify that all payroll and tax rules were followed appropriately. Staff believes that the best solution is keeping the software in-house and retaining the control over the configuration and processing.

Staff then explored a variety of software vendors in addition to MIP. We determined that none would integrate as well as MIP's own payroll modules with our existing MIP accounting system. Such integration saves time during payroll and accounting processing and reduces the risk of error when transmitting or transcribing data between systems.

FINANCIAL IMPACT

Estimated \$4,025 ongoing annual savings. Estimated \$31,185 onetime maximum costs paid from budget savings and reserves.

Attachment

Resolution 2012-09 - Administrative Reserves for Information Technology was created in 2012

RESOLUTION 2012 - 09

**A RESOLUTION OF THE BOARD OF DIRECTORS
OF THE LOS OSOS COMMUNITY SERVICES DISTRICT
ESTABLISHING BUDGET RESERVE POLICIES**

WHEREAS, Community Services District Law is established in Section 61000 et seq. of the Government Code; and

WHEREAS, Government Code Section 61040(a) states, in relevant part, "a legislative body of five members known as the board of directors shall govern each district. The board of directors shall establish policies for the operation of the district"; and

WHEREAS, Government Code Section 61045(g) states, "the board of directors shall adopt policies for the operation of the district, including, but not limited to, administrative policies, fiscal policies, personnel policies, and the purchasing policies required by this division"; and

WHEREAS, Government Code Section 61110(b) states, in relevant part, "the board of directors may divide the preliminary budget into categories, including, but not limited to, the following: . . . (6) Designated reserve for capital outlay. (7) Designated reserve for contingencies"; and

WHEREAS, Government Code Sections 61112(a) and (c) state "(a) in its budget, the board of directors may establish a designated reserve for capital outlay and a designated reserve for contingencies. When the board of directors establishes a designated reserve, it shall declare the exclusive purposes for which the funds in the reserve may be spent. The funds in the designated reserve shall be spent only for the exclusive purposes for which the board of directors established the designated reserve. The reserves shall be maintained according to generally accepted accounting principles." And "(c) If the board of directors finds that the funds in a designated reserve are no longer required for the purpose for which it established the designated reserve, the board of directors may, by a four-fifths vote of the total membership of the board of directors, discontinue the designated reserve or transfer any funds that are no longer required from the designated reserve to the district's general fund"; and

WHEREAS, based on the Staff Report, staff presentation, and public comment, the Los Osos Community Services District ("District") Board of Directors finds that water, drainage, fire protection and waste disposal are vital services to protect the health, safety and welfare of District residents and customers; and

WHEREAS, based on the Staff Report, staff presentation, and public comment, the District Board of Directors further finds that these policies help protect the health, safety, and welfare of District residents and customers by establishing a financial plan to:

- A. Address unforeseen and unexpected contingencies of operating District facilities and equipment; and
- B. To timely fund the replacement of District facilities and equipment as they wear out; and

WHEREAS, the establishment of adequate reserves is critical to the successful and stable short and long term operation of the District, and

WHEREAS, pursuant to Community Services District Law, the District, by this Resolution, establishes reserve categories commencing with the adoption of the Fiscal Year 2010-2011 Budget for the District's fire services, water services, drainage services, and to establish the purposes for each of the reserve categories.

NOW THEREFORE, THE BOARD OF DIRECTORS OF THE LOS OSOS COMMUNITY SERVICES DISTRICT DOES HEREBY RESOLVE, DECLARE, AND DETERMINE THAT:

SECTION 1: RESERVE POLICIES

A. Fire Department – Fund 301:

1. A Vehicle & Equipment Replacement Reserve shall be established for the orderly and timely replacement of emergency equipment, apparatus and accessories. The annual funding goal is equal to the amount of depreciation of replaceable equipment for the year increased by inflationary costs determined by the higher of an amount based on CPI change as per Section 3 or an amount based on industry trends on replacement values. During the years that appropriating the annual funding goal is not financially feasible, a minimum funding of \$72,000 is appropriated annually. Until such time that the maximum funding goal is reached, catch-up funding will be appropriated in any year whenever it becomes financially feasible. The maximum funding goal is for the reserves to be equal to the total accumulated depreciation of replaceable equipment increased by inflationary costs intended to approximate replacement costs in any given year. An equipment replacement schedule is prepared by the Fire Chief or his/her designee that will validate increases or decreases to the reserves funding as requested in the budget of the upcoming year in accordance with this section.
2. A Capital Outlay Reserve shall be established for the replacement, upgrade, expansion or improvements of buildings, structures and facilities that are used by the department to house personnel or equipment. Funding goal is an annual appropriation of at least \$10,000, with a cumulative maximum goal of \$5 million.
3. A General Contingency Reserve shall be established to meet contingency expenditures resulting from natural disasters or from unforeseen circumstances. Annual funding goal for this reserve account is \$10,000 with a maximum cumulative goal of at least 15% of the Fire Fund's Operating and Maintenance annual budget which on average amounts to about \$1.3 million.

B. Water Department – Fund 500:

1. A Rate Stabilization Reserve shall be established to:
 - i. Equalize revenues should District income from the Utility billings decrease due to conservation efforts initiated by the District or by the public; and

- ii. Provide a funding source to offset operation and maintenance revenues associated with fee waivers or reductions approved by the District Board of Directors in accordance with District policies and procedures established pursuant to Government Code Section 61123).(d). Reserves in this category shall be funded by water sales revenues.

The funding goal of this Rate Stabilization Reserve shall be \$32,000 annually until such time as this Rate Stabilization Reserve reaches a total of ten (10%) percent of the total annual water Operation and Maintenance Budget as approved by the Board of Directors from time to time.

2. A General Water Contingency Reserve shall be established for Emergency Operations should a natural or other disaster occur that would temporarily interrupt the District's income from Utility bills, to repair District facilities, and to provide funding for unforeseen circumstances not covered by the District's Operation and Maintenance Budget. The funding goal of this reserve account is an annual appropriation of at least \$25,000 per year up to a maximum cumulative goal of sixty (60%) percent of the District's annual Operation and Maintenance Budget as approved by the Board from time to time.
3. A Water Capital Outlay Reserve will be established for the replacement of water infrastructure. The funding goal of the Water Capital Outlay Reserve is to fund the timely replacement of water infrastructure and facilities as referenced in the District's Water Master Plan or other subsequent water planning documents approved by the District. The annual funding goal of this reserve is at least \$150,000 per annum with a short-term cumulative funding goal of \$470,000 and a long-term cumulative funding goal equal to the total of needed capital improvement projects identified in the Water Master Plan.
4. A Water Quality Reserve shall be established to fund studies on the causes of pollution and contamination of the District's water supply, to mitigate the problem so as to continue delivery of safe drinking water and fund short-term and long-term solutions to prevent and mitigate water contamination problems in the future for the whole community. There is no annual funding set for this Reserve but will continue to exist only as long as there is a balance in the settlement account of a water pollution case received in 2005. When the funds are exhausted, this Reserve will cease to exist.
5. A Water Conservation Reserve is established with an initial funding of \$25,000 in FY 2012/13. No annual funding for this reserve is set but will increase annually by the appropriation balance in the Water Conservation Program account (No. 7348) as of the end of each fiscal year. The cumulative funding goal of this reserve is \$100,000.
6. A Designation for Water Basin Management or ISJ Commitments is hereby established. This will be funded by any appropriation balances in account no. 9155, ISJ Costs- Inter-Agency Cost Sharing, remaining as of the end of each fiscal year that is not otherwise held in a Reserve for Encumbrance or Fund Reservation starting with the close of FY 2011/12. Initially, the cumulative funding goal of this Reserve is \$1 million.

C. Drainage – Fund 800:

1. A Drainage Capital Outlay Reserve fund shall be established for the replacement of equipment and facilities associated with the operation of District drainage services. The funding goal of this Capital Outlay Reserve will be at least \$10,000 per annum with a total funding goal of \$500,000. The total funding goal may be adjusted by the Board of Directors from time to time as part of the adoption of the annual budget. The maximum goal is set to a level that is sufficient to replace at least half of the drainage equipment and facilities at any point.
2. A General Contingency Reserve shall be established for contingency expenditures resulting from natural disasters or unforeseen circumstances. Funding goal for this reserve account is \$5,000 per annum with a cumulative funding goal of \$50,000. When this goal is reached, it shall be funded with an annual increase in accordance with the CPI index change as per Section 3 applied to the balance of this reserve as of the last audited fiscal year.

D. Solid Waste – Fund 650:

1. General Contingency Reserves not to exceed \$ 300,000 is established to cover expenditures estimated to equal no more than six months of operating costs in the event that the District may find itself operating solid waste collection, disposal and recycling functions should its business partner now franchised to do these functions be unable to continue to provide these services due to an unforeseen event. This reserve provides assurance that solid waste services remain uninterrupted at all times. Annual appropriation for this reserve will be no more than \$ 50,000 annually until the maximum cumulative reserve goal of \$300,000 is reached at which time funding will be equal to the change in the CPI index as per section 3 applied to the balance of this reserve as of the last audited fiscal year.

E. Administrative Fund – Fund 100:

1. A Reserve for Information Technology is hereby created in the Administrative Fund. This Reserve will fund acquisitions and upgrades of softwares, hardwares and systems that are used to provide centralized services to all funds of the District. This will be funded by total appropriation savings in the Administrative Fund at the close of each fiscal year starting with fiscal year 2011/12 or as otherwise directed by the Board at the adoption of the annual budget. The maximum funding goal is \$200,000.
2. A Contingency Reserve for Septic System Pumping and Maintenance is established with annual funding of about \$17,300. This funding comes from general taxes originally used for drainage basin maintenance which is now funded by Drainage assessments. This reserve will sunset as soon as the sewer system being built by the County becomes operational.

SECTION 2: RESERVE FUNDING INCLUDING INVESTMENT INCOME

Reserve funding sources include rates, charges, special taxes, and property taxes collected by the District related to the services referenced in Section 1 of this Resolution.

All interest and other investment income earned on funds held in reserves or designations will be added to the associated Reserve/Designation Balance. Reserves and Designations that have reached their cumulative funding goal will continue to increase with investment income unless the Board approves a specific amount cap to a specific reserve or designation.

In any year where there is a major shortfall in revenues due to unusual circumstances which may or may not be under the control of the Board of Directors, funding for Reserves is held in abeyance and is subsidiary to the funding of Operations and Maintenance expenditure accounts. After the circumstance is resolved, funding for Reserves for all years that were not fully funded will be restored whenever feasible. A description of the unusual circumstance will be presented to the Board at the time the Proposed Budget or the Final Budget is presented along with a statement of the impact on the reserves funding goals.

SECTION 3: INCREASE FUNDING OF RESERVES EQUAL TO THE INCREASE IN THE CONSUMER PRICE INDEX (CPI)

Funding increases to Reserves on account of the change in CPI Index as used in Section 1 is computed as the percentage change in the average of the annual averages of the last calendar year over the prior calendar year using the Los Angeles-Riverside-Orange CPI and the San Francisco-Oakland-San Jose CPI for all consumer items. This section will apply once certain reserves reach their maximum funding goal and is intended to bring the reserve in line with current values each year.

SECTION 4: SPECIFIC ACCOUNTS THAT WILL AUTOMATICALLY GO TO RESERVES OR DESIGNATIONS

1. Appropriation balances of specific accounts, not otherwise held in a Reserve for Encumbrance or Fund Reservation, as of the end of each fiscal year will automatically roll over to the subsequent fiscal year as increases to the associated reserve/designation unless the Board directs otherwise during the adoption of the annual budget; these accounts are as follows:
 - a. Capital Outlay accounts
 - b. ISJ Charges
 - c. Water Conservation Program
 - d. Appropriation for Contingencies
2. Proceeds of sale of fixed assets will automatically roll over to the subsequent fiscal year as increases to the Vehicle, Equipment or Plant Replacement Reserve if one exists or to the Capital Outlay Reserve unless the Board directs otherwise during the adoption of the annual budget.

SECTION 5: TRANSFERS

Pursuant to Government Code Section 61112(c), the District Board of Directors may only transfer reserve funds for purposes other than the purposes outlined in Section 1, above, by a four-fifths (4/5) vote of the total membership of the Board of Directors and upon a finding that the reserves are no longer required for the designated purpose. Reserve transfers are limited to funding shortfalls in other related budget categories of the particular service and to funding shortfalls in administrative services budget.

SECTION 6: INCONSISTENCY

To the extent that the terms or provision of this Resolution may be inconsistent or in conflict with the terms or conditions of any prior District motions, resolutions, rules, or regulations adopted by the District, governing the same subject matter thereof, then such inconsistent and conflicting provisions of prior motions, resolutions, rules, and regulations are hereby repealed.

SECTION 7: SEVERABILITY

If any section, subsection, sentence, clause or phrase of this Resolution is for any reason held to be unconstitutional, ineffective or in any manner in conflict with the laws of the United States, or the State of California, such decision shall not affect the validity of the remaining portions of this Resolution. The Governing Board of the District hereby declares that it would have passed this Resolution and each section, subsection, sentence, clause and phrase thereof, irrespective of the fact that any one or more sections, subsection, sentence, clause or phrase be declared unconstitutional, ineffective, or in any manner in conflict with the laws of the United States or the State of California.

SECTION 8: INCORPORATION OF RECITALS

The recitals to this Resolution are true and correct and incorporated herein by this reference.

Upon the motion of Director Vogel, seconded by Director Wright and on the following roll call vote:

AYES: Vogel, Wright, Baltimore, Hoothart, Ochylski
NOES: _____
ABSENT: _____
ABSTAIN: _____

The following Resolution is hereby passed, approved and adopted by the Board of Directors of the Los Osos Community Services District on the 7th day of June 2012.



Marshall E. Ochylski
President, Board of Directors
Los Osos Community Services District

ATTEST:



Susan Morrow
General Manager and Secretary to the Board