Tuesday, September 5, 2023 at 1:00 PM
Valley Sanitary District Board Room
45500 Van Buren St., Indio, CA 92201

BUDGET & FINANCE
COMMITTEE MEETING
AGENDA

Valley Sanitary District is open to the public and board meetings will be conducted in person. In addition to attending in person, members of the public may view and participate in meeting via the following:

Zoom link: https://us06web.zoom.us/j/81444012192

Meeting ID: 814 4401 2192

To address the Board of Directors during the virtual live session via zoom, please email the Clerk of the Board at hgould@valley-sanitary.org or, alternatively, during the specific agenda item or general comment period (i.e. non-agenda items), please use the "raise your hand" function in zoom in order to be recognized by the Clerk of the Board in order to provide comments in real time.

The Clerk of the Board will facilitate to the extent possible any email requests to provide oral testimony that are sent during the live meeting. Members of the public may provide Oral testimony in person or during the virtual live session and are limited to three minutes each. To address the Board in person please complete speaker request card located at in the Board Room and give it to the Clerk of the Board.

If you are unable to provide comments during the meeting, written public comments on agenda or non-agenda items may be submitted by email to the Clerk of the Board at hgould@valley-sanitary.org. Written comments must be received by the Clerk of the Board no later than 11:00 a.m. on the day of the meeting.

1. CALL TO ORDER

2. ROLL CALL

3. PLEDGE OF ALLEGIANCE

4. PUBLIC COMMENT

5. DISCUSSION / ACTION ITEMS

5.1 Approve Minutes for the January 3, 2023, and May 2, 2023, Budget & Finance Committee

Meetings
Recommendation: Approve

5.2 Discussion of Payoff Options for the CalPERS Unfunded Accrued Liability (UAL)
Recommendation: Discussion

5.3 Update on the Audit for the Year Ending June 30, 2023
Recommendation: Discussion

6. ADJOURNMENT

POSTED August 31, 2023
Holly Gould
Clerk of the Board
Valley Sanitary District

PUBLIC NOTICE

In compliance with the Americans with Disabilities Act, access to the Board Room and Public Restrooms has been made. If you need special assistance to participate in this meeting, please contact Valley Sanitary District (760) 235-5400. Notification 48 hours prior to the meeting will enable the District to make reasonable arrangements to ensure accessibility to this meeting (28 CFR 35.102-35.104 ADA TITLE II). All public records related to open session items contained on this Agenda are available upon request at the Administrative Office of Valley Sanitary District located at 45-500 Van Buren Street, Indio, CA 92201. Copies of public records are subject to fees and charges for reproduction.

ITEM 5.1
ACTION

Valley Sanitary District

DATE:	**September 5, 2023**
TO:	**Budget & Finance Committee**
FROM:	**Jeanette Juarez, Chief Administration Officer**
SUBJECT:	**Approve Minutes for the January 3, 2023, and May 2, 2023, Budget & Finance Committee Meetings**

Suggested Action
Approve

Strategic Plan Compliance
GOAL 6: Improve Planning, Administration and Governance

Fiscal Impact
There is no fiscal impact.

Background
The minutes from the January 3, 2023, and May 2, 2023, Budget & Finance Committee meeting are presented for review and approval.

Recommendation
Approve the minutes from the January 3, 2023, and the May 2, 2023, Budget & Finance Committee meetings.

Attachments
03 Jan 2023 Meeting Minutes.edited.pdf
2 May 2023 Meeting Minutes.edited.doc

VALLEY SANITARY DISTRICT
BUDGET & FINANCE COMMITTEE MEETING MINUTES
January 3, 2023

A regular meeting of the Valley Sanitary District (VSD) Budget & Finance Committee was held at 45-500 Van Buren Street in Indio, California, on Tuesday, January 3, 2023.

1. CALL TO ORDER

Committee Member Debra Canero called the meeting to order at 1:00 p.m.

2. ROLL CALL

Directors Present:
Committee Member Debra Canero
Committee Member Scott Sear

Staff Present:
Beverli Marshall, General Manager; Jeanette Juarez, Chief Administrative Officer; Dave Commons, Chief Operations Officer; and Holly Gould, Clerk of the Board

Guests:
Valerie Houchin, Schneider Electric

3. PLEDGE OF ALLEGIANCE

4. PUBLIC COMMENT

The public comment on any item not appearing on the agenda. Please notify the Secretary in advance of the meeting if you wish to speak on a non-hearing item.

None.

5. DISCUSSION / ACTION ITEMS

5.1 Select Committee Chairperson

Committee Member Scott Sear nominated Debra Canero as the Budget & Finance Committee Chairperson for 2023.

5.2 Approve Minutes for the November 1, 2022, Budget & Finance Committee

Committee Member Sear motioned to approve the minutes of the November 1, 2022, Budget & Finance Committee meeting. Chairperson Canero seconded the motion. Motion carried.

5.3 Receive and File the Budget Timeline for the Fiscal Year 2023/24

The action for approval and adoption of the annual budget is completed in June of each calendar year. In preparation for the fiscal year 2023/24 budget, staff has prepared a budget timeline for the Budget and Finance Committee to review. The timeline includes deliverable due dates and meeting dates. The timeline will serve as a guide during the upcoming weeks to continue budget discussions and allow for any modifications if needed.

5.4 Discussion and Direction for Recycled Water Project Financing Needs

Recycled Water Project – Phase I consists of six scopes of work that include Waste Activated Sludge (WAS) Thickening. On February 8, 2022, the Board of Directors authorized to proceed with the design alternative for the WAS Thickening and pursue Rotary Screw Thickening technology. Due to the change in design, the WAS Thickening scope of work was not included in Amendment #1 for $71M. The estimated schedule to complete the 60% design of the Rotary Screw Thickener was December 2022. A guaranteed maximum price would then be completed and brought to the Board for approval as Amendment #2 to the contract for an estimated cost of $10M. Valerie Houchin, Schneider Electric, gave an update to the Committee on the progress of the design of the rotary screw thickeners. Jeanette Juarez informed the Committee that the District would need to consider financing options for the rotary screw thickener and Phases II and III of the Recycled Water Project, estimated at $114.4M. She also informed the Committee that the District was invited to apply for funding through the Water Infrastructure Finance and Innovation Act (WIFIA). The invitation is to apply for $44M for the Recycled Water Project Phases II and III. The Committee recommended providing the Board of Directors with at least three funding options if possible.

6. ADJOURNMENT

There being no further business to discuss, the meeting adjourned at 1:49 p.m. The next regular committee meeting will be on March 7, 2022.

Respectfully submitted,
Holly Gould, Clerk of the Board
Valley Sanitary District

VALLEY SANITARY DISTRICT
BUDGET & FINANCE COMMITTEE MEETING MINUTES
May 2, 2023

A regular meeting of the Valley Sanitary District (VSD) Budget & Finance Committee was held at 45-500 Van Buren Street in Indio, California, on Tuesday, May 2, 2023.

1. CALL TO ORDER

Chairperson Debra Canero called the meeting to order at 1:00 p.m.

2. ROLL CALL

Directors Present:
Chairperson Debra Canero

Directors Absent:
Committee Member Scott Sear

Staff Present:
Ron Buchwald, Interim General Manager; Jeanette Juarez, Chief Administrative Officer; Dave Commons, Chief Operations Officer; and Holly Gould, Clerk of the Board

3. PLEDGE OF ALLEGIANCE

4. PUBLIC COMMENT

The public comment on any item not appearing on the agenda. Please notify the Secretary before the meeting if you wish to speak on a non-hearing item.

None.

5. DISCUSSION / ACTION ITEMS

5.1 Approve Minutes for January 3, 2023, Budget & Finance Committee

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5.2 Discussion and Review of the Valley Sanitary District Financial Plan and Revised Proposed Fiscal Year 2023/24 Capital Improvement Budget

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Due to the cancellation of the Proposition 218 notice and proposed rate increase scheduled for July 1, 2023, to June 30, 2028, staff updated the financial plan and proposed fiscal year 2023/24 capital improvement budget. Jeanette Juarez, Chief Administrative Officer, presented the unaudited reserve balances for Fund 11, Fund 12, and Fund 13. She explained that Fund 11 is the operating expenditures and six-month reserve, Fund 12 is the reserve for capital replacement and rehabilitation, and Fund 13 can only be used for expansion or new capital projects. Jeanette stated that the District's policy states that 40% of Fund 11 is deposited into

Fund 12. She stated that this policy would not be sustainable and recommended the Board review the policy. Jeanette presented the revised proposed capital project for FY24 that removed the Sewer Rehabilitation or Replacement Design and Construction, Training Office Building Design, Laboratory Building Design, and the Biosolids Conversion Project. Chairperson Canero stated that she would like to see some funding go to the Biosolids Conversion Project, even if it is minimal. She also suggested renaming Sewer Emergency Repairs to Sewer Rehabilitation so some of the smaller tasks of the Sewer Rehabilitation or Replacement Project can utilize those funds if needed. The FY24 capital budget was revised from $61,477,311 to $54,216,450.

Chairperson Canero asked for an update on the outreach project with Coachella Valley History Museum. Ron Buchwald, Interim General Manager, will contact Gloria Franz for an update.

6. ADJOURNMENT

There being no further business to discuss, the meeting adjourned at 2:07 p.m. The next regular committee meeting will be on July 5, 2023.

Respectfully submitted,
Holly Gould, Clerk of the Board
Valley Sanitary District

ITEM 5.2
DISCUSSION

Valley Sanitary District

DATE:	**September 5, 2023**
TO:	**Budget & Finance Committee**
FROM:	**Jeanette Juarez, Chief Administrative Officer**
SUBJECT:	**Discussion of Payoff Options for the CalPERS Unfunded Accrued Liability (UAL)**

Suggested Action
Discussion

Strategic Plan Compliance
GOAL 6: Improve Planning, Administration and Governance

Fiscal Impact

The fiscal impact of this report is between $2,126,554 - $3,832,832, depending on the repayment plan selected.

Environmental Review

This item does not qualify as a project as defined by the California Environmental Quality Act (CEQA).

Background

The Unfunded Accrued Liability (UAL) is the difference between the accrued pension liability (the amount of money that an agency needs to have in its pension plan at a certain date to be able to meet its future pension obligations) and the market value of assets (the amount of money the agency actually has in its pension plan as of that date) within a pension plan. In other words, it is the shortfall between what an agency should have and what it actually has in its pension plan.

In 2018 the projected UAL for the District was $2,820,718. The CalPERS actuary, Kurt Schneider, provided the following table showing the estimated 30-year, 15-year, 5-year, and 1-year UAL payoffs.

Year	Amount	Interest Paid	Savings
30 year	5,703,454	3,097,463	0
20 year	5,234,465	2,628,474	468,989
15 year	4,408,502	1,802,511	1,294,952
5 year	2,929,580	108,862	2,988,601
1 year – payoff	2,820,718	0	3,097,463

The Board approved the 5-year fresh start making the 2018/2019 contribution $585,916 in July 2018, and continuing for each of the next 5 years. Each year the payment could slightly increase with the goal to pay off the UAL in 2022.

The District was successful and completed the 2018 5-year fresh start plan. However, there was a large investment loss in 2021/2022. As of June 30, 2023, the District's UAL projected balance is $2,126,554. The interest rate is estimated at 7.389%. Mr. Schnieder provided some potential repayment options for the Board of Directors to consider.

Year	Amount	Interest Paid	Savings
20 year	3,832,832	1,706,278	0
10 year	2,728,985	602,431	1,103,847
5 year	2,346,505	219,951	1,486,327
9 year fixed	2,410,917	284,363	1,421,915
1 year – payoff	2,126,554	0	1,706,278

The payment schedule options are attached to this report (Attachment A). Also, there is a CalPERS Unfunded Pension Liabilities, Frequently Asked Questions (Attachment B), and an article from Ridgeline Municipal Strategies that provides an overview of the CalPERS FY2023 Investment Return Impacts Summary.

Recommendation

Staff recommends that the Board of Directors review the UAL payment options and provide staff with direction.

Attachments

5.2 Attachment A.pdf
5.2 Attachment B FAQs.pdf
5.2 Attachment C What CalPERS' 5.8% Investment Return Means for Your Agency.pdf

	Original Schedule (no fresh starts)	Actual Payments (w/ 2022 valuation results)	Actual Payments - 10-year FS in 2022 valuation	Actual Payments - 5-year FS in 2022 valuation	Actual Payments with Stabile Contributions Beg. 2023-24
	Original Amortization Schedule	Actual Payments Through 6/30/2022	10-year Fresh Start 6/30/2022	5-year Fresh Start 6/30/2022	Fixed Payments 6/30/2023
2018-19	133,700.00	565,436.00	565,436.00	565,436.00	565,436.00
2019-20	164,862.35	449,646.00	449,646.00	449,646.00	449,646.00
2020-21	192,872.31	467,046.00	467,046.00	467,046.00	467,046.00
2021-22	230,095.15	684,624.00	684,624.00	684,624.00	684,624.00
2022-23	257,688.15	695,275.00	695,275.00	695,275.00	695,275.00
2023-24	255,041.00	-	-	-	300,000.00
2024-25	315,584.00	60,472.00	272,898.52	469,300.07	300,000.00
2025-26	345,981.00	97,949.00	272,898.52	469,300.07	300,000.00
2026-27	370,951.00	135,426.00	272,898.52	469,300.07	300,000.00
2027-28	399,099.00	172,903.00	272,898.52	469,300.07	300,000.00
2028-29	458,249.00	210,380.00	272,898.52	469,300.07	300,000.00
2029-30	467,657.00	210,380.00	272,898.52		300,000.00
2030-31	475,031.00	210,380.00	272,898.52		300,000.00
2031-32	489,916.00	210,380.00	272,898.52		10,917.39
2032-33	485,746.00	210,380.00	272,898.52	5.00	-
2033-34	475,857.00	210,380.00	272,898.52		
2034-35	458,223.62	210,380.00			
2035-36	442,198.64	210,380.00			
2036-37	304,428.80	210,380.00			
2037-38	283,853.76	210,380.00			
2038-39	262,004.63	210,380.00			
2039-40	244,881.53	210,380.00			
2040-41	233,142.10	210,381.00			
2041-42	203,020.51	210,381.00			
2042-43	165,293.32	210,380.00			
2043-44	334,206.81	210,380.00			
2044-45	23,698.48	-			
2045-46	3,574.14	-			
2046-47	8,185.05	-			
Total	**8,485,041.32**	**6,694,859.00**	**5,591,012.18**	**5,208,532.34**	**5,272,944.39**
Savings		***1,790,182.32***	***2,894,029.15***	***3,276,508.98***	***3,212,096.93***

pension liability management plan that will allow you to avoid costly mistakes in the future and build up a cushion to navigate future UAL costs.

Ongoing Pension Liability Management

There really is not a one-time fix for pension liability increases as long as you have employees, retirees, and beneficiaries with pension benefits. Ridgeline is available to provide ongoing support in analyzing the annual actuarial valuation reports sent to you by CalPERS and in implementing pension liability management policies.

CalPERS Unfunded Pension Liabilities: Frequently Asked Questions

Where can I learn more about my agency's CalPERS' pension plans? +

The main source of information on the California public agencies' pension plans are the annual actuarial reports published by CalPERS. These reports are available through the agency's MyCalPERS portal. The reports are updated once a year, usually around July / August, and incorporate information through the end of the prior fiscal year. In other words, a report published in July of 2022 includes information and valuation data through June 30, 2021. These reports include information on the agency's past and future pension payments, accrued pension liabilities, market value of assets, and unfunded accrued liabilities and their amortization schedules, etc.

What payments do I have to make to CalPERS? +

Each agency has to pay minimum required contributions to CalPERS. These contributions consist of two components – the Normal Cost and the Unfunded Accrued Liability (UAL) payments:

• **The Normal Cost** is the annual cost of pension benefits earned by active employees during the fiscal year. The Normal Cost is shared by the agency and its employees and calculated as a percentage of salaries. The Normal Cost payments are made monthly and fluctuate with payroll.

• **The UAL Payments** are the repayment of previously accrued unfunded pension liabilities (see below), amortized over two to three decades. Each agency has an option to make monthly or annual UAL payments. Making the annual payment prior to July 31 is more beneficial, since it comes with a 3.5% discount comparing to the monthly payments. While the actuarial report shows the UAL payments as a percentage of payroll, it is billed as a fixed dollar amount. Even if an agency no longer has any employees, but has pension plan beneficiaries eligible for benefits, it still has to make the UAL payments.

What is UAL? +

The Unfunded Accrued Liability (UAL) is the difference between the accrued pension liability (the amount of money that an agency needs to have in its pension plan at a certain date to be able to meet its future pension obligations) and the market value of assets (the amount of money the agency actually has in its pension plan as of that date) within a pension plan. In other words, it is the shortfall between what an agency should have and what it actually has in its pension plan.

How is my UAL calculated? +

The UAL changes every year due to CalPERS' investment performance, actual pension plan experiences, and any changes to the pension formula assumptions. The UAL consist of multiple layers (called "bases"), each with its own repayment schedule. The bases can be either positive (increasing the UAL balance) or negative (decreasing the UAL balance). Different types of bases have different amortization rules and can require payments for up to 30 years. When a new base is added, it can have a negative amortization period for the first several years, when the required payments are not sufficient to cover the interest cost on the base (see below), which leads to the base balance increasing from year to year.

Why is my UAL so high?

+

Your agency is not alone in facing a large and growing pension liability – many other municipalities are facing the same problem. Here are some of the reasons for the UAL increases.

• **Inadequate investment performance.** Each year that the investment returns fall short of the formula expectations (the discount rate), the UAL grows. However, if investment performance is better than the formula expectations, the UAL is reduced.

• **Assumption changes.** Actuarial assumption changes by CalPERS have a direct impact on the UAL. Such changes include life expectancy, salary increases, retirement age, etc. It is very unusual to see an assumption change that results in a decrease of the UAL.

• **Discount rate reduction.** The discount rate is the minimum average rate of investment return that CalPERS must earn in order for the pension plan to be sufficiently funded to meet the future retirement benefits, holding all other assumptions unchanged. When the discount rate is reduced, which has been the trend for the last two decades, it results in future expected investment earnings to be lower, and that shortfall requires for an increase to pension contributions by the agencies and their employees. CalPERS has been gradually decreasing the discount rate from 8.75% in 1995 down to 6.8% in 2021. There are also further automatic discount rate reduction provisions built into CalPERS' policies. Every time the discount rate is reduced, the agencies have to make up the future investment income expectation reduction through higher contributions.

Does it cost my agency anything to have an outstanding UAL?

The UAL resembles any other debt obligation. CalPERS requires its member agencies to pay interest on the outstanding UAL balance at the discount rate, which is currently 6.8%. When new bases are added to the UAL, the interest payments required on the added UAL balance exceed the amount of the UAL increase itself. At 6.8% interest rate, the UAL is usually an agency's most expensive debt.

Will my pension costs go up?

Most agencies see their pension costs increasing every year, particularly the UAL payments component. A typical CalPERS member agency saw its Classic plan UAL payments increase approximately 1.5x (150%) to 2.0x (200%) from 2017 to 2021 fiscal year. As of the 2019 valuation report date, the UAL payments were typically scheduled to continue to increase through 2032 and are estimated to more than double from the 2021 level. In other words, for every $100,000 in UAL payments in 2017, a typical agency paid approximately $150,000 to $200,000 in 2021, and will be paying approximately $400,000 in 2032, a four-fold increase. However, each agency's situation is slightly different and needs to be carefully analyzed. These increasing payments include not just the repayment of the UAL, but also the interest costs, which are often very close to the amount of the UAL itself.

What can I do to manage my agency's future pension costs and how can Ridgeline Municipal Strategies help me? +

While the Normal Cost can only be managed by your agency's labor practices, there are multiple strategies to optimize the UAL costs. In our experience, most public agencies can find strategies that improve their pension payments situation – whether through lowering their overall interest costs or through modifying the annual payment requirements (and sometimes both). We have identified ten (10) such strategies. While not all strategies are the right fit for you, some likely are. As a part of our work, we do a comprehensive pension liability assessment to evaluate what strategies represent the best fit for your agency. In addition to addressing your existing UAL and the associated costs, we believe it is important for you to implement policies and practices that will help you minimize future UAL increases.

The pension topic can be complicated and intimidating to discuss. As common in the world of finance, things that we do not have a good grasp on usually end up costing us more than necessary. The goal of Ridgeline's Pension Cost Optimization program is to make pensions simpler to understand and to find ways to make them less costly.

RECENT POSTS

CalPERS Announces 5.8% Investment Return for FY2023. What does that mean for your agency?

CalPERS Announces 6.1% Investment Loss for FY2022. What does that mean for your agency?

CalPERS Announces 21.3% FY2021 Return and Lowers Discount Rate to 6.8%

Annual Debt Transparency Report Deadline is January 31, 2022 – Are You Ready?

What CalPERS' New 6.8% Discount Rate Means for Employers?

CATEGORIES

CALPERS

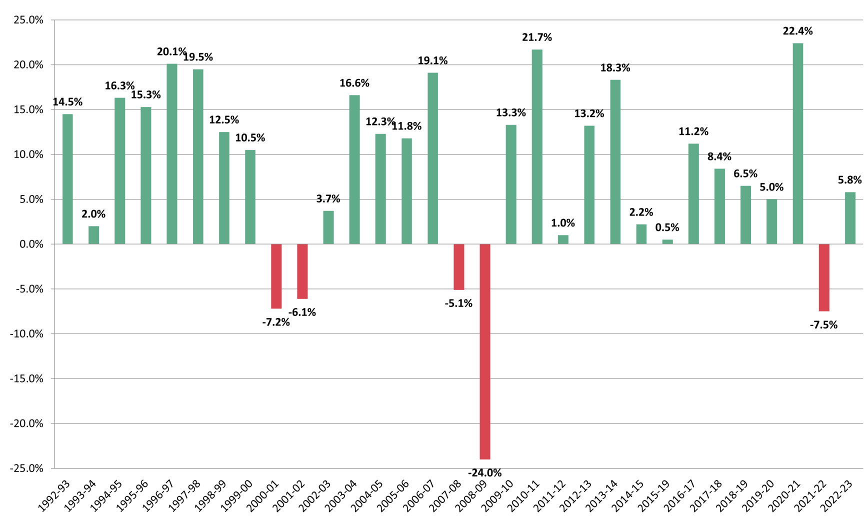
Municipal Advisor

CalPERS Announces 5.8% Investment Return for FY2023. What does that mean for your agency?

July 19, 2023

On July 19, 2023, the California Public Employees' Retirement System (CalPERS) announced a preliminary 5.8% investment return for FY2023. While the pension fund did not post a loss, as they did in prior year, the return fell short of the 6.8% target (also known as the discount rate) that is required to maintain the funded level and avoid further unfunded accrued liability (UAL) increases. As a result, the agencies that are serviced by CalPERS will see higher UAL balances and UAL payment amounts once the FY2023 actuarial reports are published in summer of 2024.

The 30-year history of the CalPERS investment return is shown in the graph below.



CalPERS' Investment Return History (1993-2023)

Fire District Finance
Our Customers
Pension Cost Optimization
Public Pensions
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The FY2023 return followed a devastating FY2022, when CalPERS lost a near record 7.5%. While significant market corrections are expected to be followed by recoveries, FY2023 did not bring any meaningful relief.

With the investment return falling slightly short of the 6.8% target, the California's public pension system managed to maintain its 72% funded level.

The investment performance was driven by healthy gains in the public stock portfolio (14.1% gain) and a reasonable return in the private debt asset class (6.5% gain), while private equity and real estate lost money (-2.3% and -3.1%, respectively) and fixed income just sat there (0.0% return). It should be noted that the private equity, real estate, and private debt return calculations usually lag by a quarter and still could be adjusted.

To quantify what the 5.8% investment return means for your agency, it is important to understand the math of pension plan funding within the CalPERS system.

In order for the pension system to stay on track and avoid significant UAL increases, CalPERS needs to average 6.8% in annual investment returns. This target is called the discount rate, or the minimum average rate of return that CalPERS needs to achieve in perpetuity so that its member agencies could meet their retirement obligations to employees, retirees, and other beneficiaries. Every time that CalPERS misses the return target, additional UAL is created.

A funding shortfall happens and new UAL is created every time the investment return for a fiscal year drops below 6.8%. Thus, the FY2023 funding shortfall was 1.0% (6.8% discount rate minus 5.8% investment loss).

To approximate the FY2023 loss impact on your UAL, you need to multiply the market value of assets within your pension plan by 1%. That will be the approximate UAL amount that will be added to your pension plan for the year. For each $1 million in pension plan assets, roughly $10,000 in new UAL will be added to each agency's account.

The new UAL will first be reflected in the 2023 actuarial reports, which CalPERS will publish in July/August of 2024.

If CalPERS continues to follow its current amortization practices, the FY2023 UAL will be amortized over a 20-year period starting with FY2026, with a five-year payment ramp-up. The 2026 UAL payment will be 20% of the full payment amount, the 2027 payment will be 40% of the full payment amount, the 2028 payment will be 60% of the full payment amount, and the 2029 payment will be 80% of the full payment amount. Only in 2030 will the payments be fully phased in and continue at that level for 15 more years.

Even though the cash flow impacts of the FY2023 investment return will not be felt for awhile, the total cost impacts have already begun accruing and are adding to the pain from the FY2022 devastating UAL increase. CalPERS starts charging its member agencies interest on the UAL as soon as it is incurred. The interest rate is the same as the discount rate, 6.8%.

On July 1, 2023, the new UAL started working against you. The situation is made worse by the negative amortization practice of CalPERS. Even though the interest starts accruing immediately, no payments are required until FY2026. Each year the accrued interest gets added to the UAL balance, and the following year you will be charged interest on top of that interest as well. Because of the payment delay and the ramp-up, each agency is put into a negative amortization situation that will end up costing additional money for two decades. This makes getting to the fully funded pension plan level that much harder.

The FY2023 performance will result in lower funded status of pension plans, higher UAL balances, and higher future UAL payments, as the effect of the loss will be spread over the next two decades. There should be no change to the Normal Cost contribution rates due to the investment performance.

The impacts of the FY2023 investment performance are illustrated below:

FY2023 Event	Plan Funded Status	UAL Balance	UAL Payments	Normal Cost Rates
5.8% Investment Return	↓	↑	↑	No Change

CalPERS FY2023 Investment Return Impacts Summary

Each agency's response to the UAL increase should be developed and evaluated in the overall context of your specific situation, taking into consideration your reserves, revenues, cash flows, capital improvements program, outstanding debt obligations, etc. The higher future UAL payments need to be reflected in the fees and rates that you are charging.

At the very least, you may want to take the following steps:

- Make additional discretionary contributions in the amount of 1% of the new UAL in FYs 2023 and 2024 and instruct CalPERS to apply them against the 2023 UAL actuarial base.
- Ask your CalPERS actuary to put the 2023 UAL actuarial base on a flat – rather than ramp-up – repayment schedule.

Ridgeline Municipal Strategies, LLC can help you evaluate the impacts of the FY2023 investment performance on your pension costs and implement appropriate pension cost optimization and mitigation strategies. You can contact us at 916-250-1590 or info@ridgelinemuni.com.

Featured Posts

City of San Juan Bautista: $14,600,000 Interim Financing for USDA Wastewater Loan

Ridgeline served as a municipal advisor on the issuance of a $14,600,000 USDA interim financing for the City of San Juan Bautista.

Financing Fire Station Projects in California

As California fire stations age and become functionally obsolete, fire agencies have multiple options to finance new fire station construction and renovation projects.

Alpine FPD: $5,278,000 Pension Obligation Bonds

Ridgeline served as a municipal advisor on the issuance of $5,278,000 pension obligation bonds for the Alpine Fire Protection District.

Lakeside FPD: $27,855,000 Pension Obligation Bonds

Ridgeline served as a municipal advisor on the issuance of $27,855,000 pension obligation bonds for the Lakeside Fire Protection District.

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ITEM 5.3
DISCUSSION

Valley Sanitary District

DATE:	**September 5, 2023**
TO:	**Budget & Finance Committee**
FROM:	**Jeanette Juarez, Chief Administrative Officer**
SUBJECT:	**Update on the Audit for the Year Ending June 30, 2023**

Suggested Action
Discussion

Strategic Plan Compliance
GOAL 6: Improve Planning, Administration and Governance

Fiscal Impact

There is no fiscal impact to this report.

Environmental Review

This item does not qualify as a project as defined by the California Environmental Quality Act (CEQA).

Background

Pursuant to Government Code section 53891, local governments are required to submit annual financial reports to the State Controller consistent with generally accepted accounting principles. Local governments are also advised to keep records that readily correlate to the requirements needed to prepare the various State Controller's Office (SCO) required financial reports.

California State law (Gov. Code, §26909) requires special districts to submit to regular audits that are performed by a county auditor or a certified public accountant. These audits are public documents and must be filed with the State Controller's Office and the County Auditor-Controller.

The District's external financial auditors, Davis Farr LLP, commenced their fieldwork on August 28, 2023, for the audit ending June 30, 2023. Attached to this report is the communication letter that was sent to the Board of Directors from the auditors.

Recommendation

Staff recommends that the Budget and Finance Committee receive and file this report as information.

Attachments

5.3 Attachment A Valley Sanitary District Communication to Board.pdf

Davis Farr LLP
18201 Von Karman Avenue | Suite 1100 | Irvine, CA 92612
Main: 949.474.2020 | Fax: 949.263.5520

August 29, 2023

Board of Directors
Valley Sanitary District
45500 Van Buren St.
Indio, CA 92201

This letter is provided in connection with our engagement to audit the financial statements of the Vallet Sanitary District as of and for the year ending June 30, 2023. Professional standards require that we communicate with you certain items including our responsibilities with regard to the financial statement audit and the planned scope and timing of our audit, including significant risks we have identified. Additionally, as a part of our audit, we inquire with those whose duties include oversight of the financial reporting process (review and acceptance of audit reports, etc.) to ascertain whether or not anyone on the Board of Directors has knowledge of matters that might have a bearing on the auditor's risk assessment for the District's annual audit.

Example of these matters are:

- Known or suspected instances of employee fraud
- Areas in which the internal controls of the District are thought by the Board of Directors to be weak
- Known or suspected misstatements in the accounting records
- Known or suspected use of improper accounting practices
- Any awareness of pressure upon the District or management with respect to achieving certain financial results
- Matters that warrant particular attention during the audit
- Information about unusual transactions or other matters relevant to the audit

Generally, the scope of the audit is limited to matters involving amounts that would be significant to the financial statements of the District taken as a whole. If additional time is required to respond to the concerns of the Board of Directors, we will estimate for the District the costs involved.

Please respond within 30 days from the date of this letter if the Board of Directors has any matters to report that meet the above criteria. You may email me at jfoster@davisfarr.com or contact me by phone (949) 783-1744.

Our Responsibilities

As stated in our engagement letter dated June 27, 2023, we are responsible for conducting our audit in accordance with auditing standards generally accepted in the United States of America and in accordance with Government Auditing Standards for the purpose of forming and expressing an opinion about whether the financial statements that have been prepared by management, with your oversight, are prepared, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit does not relieve you or management of your respective responsibilities.

Our responsibility relating to other information, whether financial or nonfinancial information (other than financial statements and the auditor's report thereon), included in the District's Annual Comprehensive Financial Report (ACFR) includes only the information identified in our report. We have no responsibility for determining whether the Introductory Section or Statistical Section is properly stated. We require that we receive the final version of the ACFR in a timely manner prior to the date of the auditor's report, or if that is not possible, as soon as practicable and, in any case, prior to the entity's issuance of such information.

Planned Scope of the Audit

Our audit will include examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. Our audit is designed to provide reasonable, but not absolute, assurance about whether the financial statements as a whole are free of material misstatement, whether due to error, fraudulent financial reporting, misappropriation of assets, or violations of laws or governmental regulations. Because of this concept of reasonable assurance and because we will not examine all transactions, there is a risk that material misstatements may exist and not be detected by us.

Our audit will include obtaining an understanding of the entity and its environment, including its internal control, sufficient to assess the risks of material misstatement of the financial statements and as a basis for designing the nature, timing, and extent of further audit procedures, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. However, we will communicate to you at the conclusion of our audit any material weaknesses or significant deficiencies identified. We will also communicate to you:

- Any violation of laws or regulations that come to our attention;
- Our views relating to qualitative aspects of the entity's significant accounting practices, including accounting policies, accounting estimates, and financial statement disclosures;
- Significant difficulties, if any, encountered during the audit;
- Disagreements with management, if any, encountered during the audit;
- Significant unusual transactions, if any;
- The potential effects of uncorrected misstatements on future-period financial statements; and
- Other significant matters that are relevant to your responsibilities in overseeing the financial reporting process.

Our audit examination began August 28, 2023. We plan to have the audit complete and finalize the ACFR by December 2023.

<u>Planned Scope of Audit</u>

In addition to our standard audit approach, we have identified significant audit risk areas for the District and plan to modify our audit approach as follows:

- Risk of errors in implementing GASB 96: Subscription Based Information Technology Arrangements: We will review contracts and agreements and evaluate the applicability of the new accounting standard.

- Each year we are required to incorporate an element of unpredictability into our audit approach. This year, we plan to perform data mining over check disbursements using a tool known as Benford's law to identify any anomalies in the data.

This information is intended solely for the information and use of management and the Board of Directors and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

Jonathan Foster, CPA
Partner