KPPCSD Finance Committee - DRAFT

Meeting Minutes

March 28, 2018

Attendees: Director Sherris-Watt, Director Welsh

Committee Members: Rob Firmin, Paul Haxo, Karl Kruger, Jim Watt

Staff: General Manager Tony Constantouros, Consultant Bill Zenoni of Municipal Resource Group, Steven Chang of Lamorana and Chang, CPA

Absent: Paula Black

David Spath said that in a recent KPOA meeting one of the issues that came up was the use of the model that Rob Firmin was working on. He felt it was important that the Finance Committee take the model and use it in respect to the upcoming budget. He also urged the committee to use it in projections coming forward 5-10 years in the future because Rob has put a lot of effort into it. Dr. Spath thinks it is very useful and that the Finance Committee should recommend to the Board that the model be used.

Karl Kruger asked that the developments related to the Community Center renovation be put on the next agenda. He would like to see where we are and talk about that and find out what we can afford and what we can't afford.

Rob Firmin requested the numbers used in the budget be given to him three weeks before the next meeting. GM Constantouros replied that that was unlikely, but the District would do its best to give him the numbers in advance.

Rob Firmin that he would like information now. Tony replied that the budget committee was not meeting until the week of April 2nd.

Rachelle Sherris-Watt said there are numbers that are still not formulated until the information from the administrative study, from the police study was received.

Steven Chang presented the audit report for the second year. He presented a clean audit opinion for both financial and the government standard. They looked at internal controls and at various cash revenue cycles and our disbursement cycle, and everything is in place.

Mr. Chang: For fiscal year ended '16-'17, the total net income for the year is a $575,000. This is approximately $137,000 better than last fiscal year. This is an approximately 29% increase in net bottom line. Prior year net bottom line increase is $438,000. Total revenue is approximately $3.4 million versus $3.1 million for fiscal year ended 2016. 11% better in total revenue. The biggest change is the property tax collection. Property tax is approximately $1.6 million, versus in fiscal year 2016 of $1.5 million.

We're looking at approximately $115,000 increase. That's equivalent to a 8-9% increase. Total expenses for the fiscal year ended 2017, approximately $2.9 million expenses, versus in 2016, of $2.7 million. We're looking at approximately $195,000 increase from fiscal year '16. That's equivalent to approximately 7%.

PERS District expense is $348,000. In fiscal year 2016, it's $163,000. That a lot has to do with what PERS is currently doing. They're looking at a different measurement date, and they try to clean up some of their liability. They have a different formula. That pushed all the changes into the current year expenses, and also what's sitting on the balance sheet as well. If you're just comparing last fiscal year's long term PERS liability with the current year, you could easily see there's a $600,000 increase in liability.

You're probably going to see more of that in the fiscal year '17-'18. PERS is already approved it to speed up the amortization from financing 30 years amortization to 20 years. Every agency will have to come up with more money to pay down the liability.

On the financial statement, on the balance sheet, starting two years ago, they have one-line item they call "defer outflow". Then under the liability section of the balance sheet, they have another line item called "defer inflow". All that change has to do with the pension and how they recognize the pension, the actual projected revenue and projected income- versus actual. They're running through these numbers into a different deferred account.

On top of that, of course, we know what we're reporting on your audit report 2017 right now. Actually, the balance is really fiscal year 2016 for PERS. They are one year behind. That's why they want to take your current contribution and put it in - like a prepaid. Then with all this amortization, everything is running through those two accounts. The net difference is running into our current year expenses.

Because you're not going to see any revenue coming out from your PERS account recognized as revenue, because everything is running through, and netted it out through your expenses. It's a very complicated calculation. It takes quite a bit of work.

Jim Watt asked what would Mr. Chang anticipate for an increase in our contributions or pension benefits. $75,000?

Mr. Chang said that in the next few years there would be a lot of changes coming through, which is good. It's just a matter of time for the system to clean everything out. New GASBs are coming to make things more transparent, to show on the balance sheet, and show on the financial statement. It's all good, but it's painful.

The new GASB on OPEB is mandatory for '17-'18. Our long-term liability is approximately $2.7-2.8 million. Stephen Chang estimated that we would add around another $2.5 million on our balance sheet as a liability for the OPEB and make everybody's balance sheet go upside down.

Jim Watt thought that right now we are about 70% funded for pension and asked Stephen if he expected that to continue to go down, down to the 60s or more.

Stephen said that PERS is the one that has our account, and they are the ones that really know the number. Fiscal year 2014, they did a report for everybody and Kensington has its own report that reads like a bank statement.

After 2014, PERS switched to a huge spreadsheet. It's called the risk pool, where they just give you a percentage. The risk pool is, hypothetical, is $500 million or $1 billion- 2 billion. Kensington is 0.00079% of that.

PERS has a CPA to come up with the calculation, and the auditor just follows the road map. They give Lamorena and Chang a number for liability to multiply by the total pool, and that's how much is needed to accrue.

The other large expense is legal - $227,000 this year. He says this is better than last year, $227,000 vs. $263,000 for the previous fiscal year.

With a total expenditure of $2.9 million and total income of approximately 3.4 million, the net position-net bottom line of $575,000 worth. This is $137,000 better than last fiscal year which is approximately 28-29% increase in net bottom line. That's a pretty solid number.

Debbie Russell explained the COPS Grant. In the old days, we used to get a $100,000. We just got a check for a $100,000 once they approved it, and that was fine. Then the states started struggling for money, so they started paying it as they went. But we still use to get the $100,000 by the end of the year. The past couple of years they've now carried it over, and for whatever reason, no one can know how much it is.

With Kevin Hart's days, Debbie had him call to try figure out- can we get a total, in order to accrue for it? Last year, an extra $19,000 came in late October. By then, the books for the audit have been closed. This year, only because the audit dragged out this far, again got it very late, but we were able to add it in.

Karl Kruger mentions that we also had $143,777 from WestNet and were paid $94,252 in reimbursement from worker's compensation. Very unusual things passing through.

Debbie said that she never thinks of worker's comp as a plus thing. It does help because it's falls under the revenue side, but we pay out the whole thing and we don't have an officer to do the work.

Stephen mentions that every government agency is really changing with the GASB 34. This is the way we need to report transactions each year. PERS has a totally new format and they want you to anticipate all your revenue. It's not just encumbrance where you should be, your budget should be zero. How much in expenses you anticipate, and just how much income you should be getting, and get to the net bottom zero number.

The net income for the year is $555,000. Total assets for the year, listed on page 8, are approximately $6.3 million with a deferred outflow of resources of about $1 million. That number is right below the total assets. This $1 million in deferred outflow, in plain accounting terms - it's almost like a prepaid expense.

This is the government accounting dictating how we need to present the prepaid items. One of the reasons is because of PERS - the pension plan is one year behind.

Debbie says we have $1.3 million that's unassigned.

Stephen says: on page 8, is the GASB 34 conversion with the general fund, capital project fund, and total. This is what we call government accounting. You have unassigned, assigned, committed, restricted. All those are government accounting. From government accounting, we have to turn it into GASB basis, GASB 34 of reporting. Which meaning, now we have to bring in all your fixed assets, all your liability. That's GASB accounting.

Debbie Russell says that in committed funds, we have the community center upgrade. Under assigned the park building money was left at $300,000. We thought we might be out of 217, so we had the temporary police station $50,000 set aside.

The Committee begins to discuss sick and vacation time and Len says that we do not book sick time.

Paul Haxo mentions that he is used to booking sick time with the possibility that you could cash out hours earned twice a year at 60% of the original.

Tony Constantouros says that he believes sick time should not be cashed out and looks at it not like vacation time, but more like life insurance. If you're ill and need coverage at that time you have the insurance of sick leave. It's not a cashable asset like vacation.

The Committee notes the summary of accounting policies all of which have to be disclosed even though they are not (all) applicable to the KPPCSD. There are a total of seven listed, and four we are currently using. The biggest one, the headache, is the OPEB one but other than that, the rest are pretty straightforward.

GASB 75, Accounting and Financial Reporting for Post-employment Benefits Other Than Pension is mandatory in our 17-18 audit.

The Committee discussed having someone from the County come and discuss our investment vehicles and rate of return. Debbie Russell said she could schedule this.

Debbie asked if there were any questions on assets. She said that $54,000 was the accumulated depreciation total. $56,000 was the cost of the asset and it was mostly depreciated. There was a motorcycle and something else.

She says that we have $587,000 left of the bond, expiring in 2020 or 21. If you look at page 23 there's the breakdown of what's left.

The bond's maturity date is 2020 and the last payment on tax that will be the one that's due in December 2020.

Paul Haxo says the last year will be a lesser assessment. It'll be the true-up for what we owe versus the cash we have on hand.

Debbie Russell points out that page 24 is all about the defined benefit plan, pension plans. We've had a couple changes from employee versus the officer's portion. The officer's portion is 9%. Employer part is approximately 20% and the officer's portion is 9%. In the old days Kensington paid all 9%. As the new MOUs have been happening that has changed. It was 2/7 and then I guess there was a 5/4 and now it's going to be 4/5. Over time the officers are paying more of it themselves reducing the cost to Kensington.

We now have classic employees and PEPRA. There's some explanation there about the numbers that apply to each of those tiers.

Rob Firmin and Jim Watt discuss that at a certain point the PEPRA employee has to pay full tax.

Debbie says on PEPRA the agency pays 12% and the employee pays 11.5% so 23.5% less altogether. The PEPRA employees, because they're new, they don't come with a backlog of debt. That's the issue for the old past employees.

Debbie says the numbers on the audit are not the $12 million we would owe to get out of the CalPERS program altogether.

Debbie discussed insurance pools and that she actually made a change here: Lynn was reading over this and caught something that's been just rubberstamped since she didn't know how long- we go back to about 2004, so Debbie didn't know when it started. There used to be a line that said for worker's comp we were self-insured and then if we're over a certain amount, we paid some other agency to cover us, which is not the case. We are not self-insured, we pay that 30 grand once a year. The risk pool that we're part of, SDRMA, they're self-insured to a certain point, so Debbie thinks that the wording was a little off.

We pay our 30,000 as everybody pays theirs and then that makes a pool. They'll pay out the first whatever amount of benefits. Then after that, there are some big hitters who come through and pay those, but it's all included with our premium. If you compare this year to last year, there's a line that's been removed that really wasn't true.

The Committee discussed the $125,000 in Franchise Fees and possible uses for the funds. Rachelle remarked that Eileen is looking into ways the funds can be spent for community improvement.

Debbie said we had a clean bill of health which is always nice. We had no findings. That's an important blank page.

The Committee voted to accept the audit and recommend its adoption by the Board of Directors. The vote was 6-0.

The meeting was adjourned.