



Los Osos Community Services District

General Manager's Monthly Report

April 7, 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 in gauging how well the Los Osos Community Services District (LOCSD) 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, strategic plan implementation (Coming Soon) and general management activities:

Office Relocation Consideration

For many months, prior management and a Board Ad-Hoc committee have been evaluating:

- The adequacy and condition of our current office space
- The potential for expansion of the current space to allow for conducting Board and Committee meetings
- Other reasonably priced, available office locations to provide a more ergonomic, healthy, comfortable and productive working environment for the Board, customers and employees

Contained on the agenda for this meeting is a closed session discussion needed to receive direction from the Board regarding the price, terms and conditions for the lease of commercial office property located at 950 Los Osos Valley Road, which has been determined to meet all of the needs of the District as identified above, and is currently available for lease.

Current Office Location

The current office space contains approximately 1400 square feet (SF) downstairs and 500 SF upstairs, including a 150 SF storage room. The lease cost is currently \$2000 per month or approximately \$1.00 per SF. Staff has determined that:

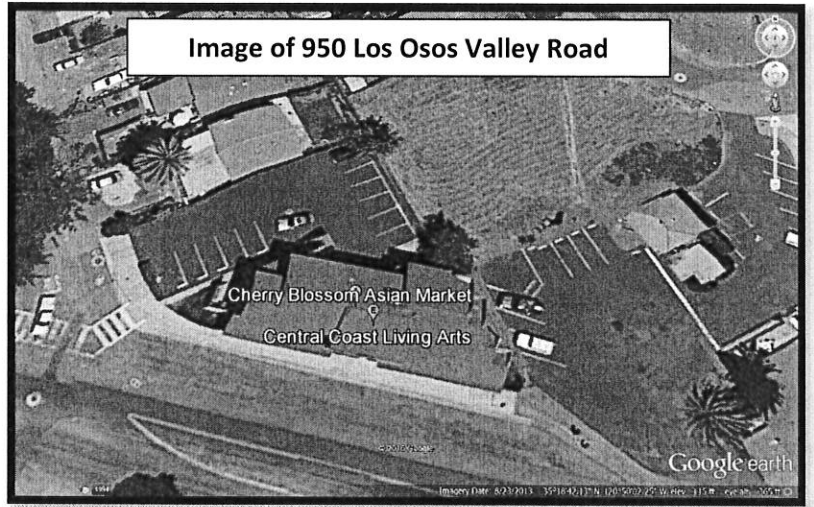
1. **The office layout is inefficient and too small** - The current office does not have adequate space for the District staff, with offices configured in such a manner that there is no working privacy, some offices are accessed through other offices causing work disruptions. The office lacks storage room requiring that any records be kept offsite.
2. **The office lacks ventilation and (natural) light** - The only windows in the building downstairs are located in the lobby and on the southern wall. The current heating system, although recently repaired by the owner, is extremely inefficient with overheated locations in one area, and unheated areas at the same time in other areas of the office. During warmer weather, the majority of the offices have no means of ventilation or receiving any fresh air, causing very stale air and even respiratory irritation in some employees.
3. **The office lacks space to conduct Board meetings.** Although the adjacent office (spa/salon) may be available for lease by the District, the improvements required to develop the Board room space will be significant.

4. **The office lacks parking.** District staff is required to park off site, on 9th Street.

Alternate Office Locations Evaluated

Several commercial spaces within the District were toured and evaluated for suitability as an alternate District office location; meeting the space, configuration, access, cost, parking and ergonomic requirements of the District. The existing commercial office location at 950 Los Osos Valley Road was toured several times and determined to fully suit the needs of the District, including:

1. 3500 square feet of office space immediately available.
2. Ample off-street, on-site employee, and Board member parking. Public attendance at Board meetings may require some on-street parking, which is available on the side street.
3. Off street temporary parking location in front of the building suitable for temporary customer access for payments and general customer service. Additional customer parking is available in the rear of the building.
4. Ample available office space downstairs to accommodate Board and Committee meetings held on site with relatively minor tenant improvements to move existing temporary walls. Board room is accessed from rear parking lot. Relocating Board meetings to the District office will save up to \$3000 annually in community center rental expenses.
5. Existing Board office suitable for closed session located adjacent to Board meeting room.
6. Significant amounts of natural light and ventilation with many windows both upstairs and down.
7. Upstairs offices have space for employee break room and small kitchen area.



Based on our evaluation, staff's recommendation is to relocate the office to 950 Los Osos Valley Road, if the price, terms and conditions of a lease can be successfully negotiated.

Transparency Certification

One of the stated goals of this Board is to raise public awareness of how this local government operates, where we spend public money, to whom we are accountable and how to become involved in the direction of your local service provider. The Special District Leadership Foundation (SDLF) was formed by CSDA and other state associations with the primary mission to help local government be more transparent and accountable to their communities. SDLF has developed four programs that provide recognition to special districts that achieve a high level of transparency and accountability, determined by the achievement of industry specific benchmarks in the areas of public outreach, open government, director and management continuing education, financial affairs, administration and customer service.

LOCSD is now positioned with solid, focused directors; an experienced General Manager certified as a Special District Administrator, and fantastic staff, to achieve each of the four SDLF awards as detailed in the March General Manager's Report. On this April 2016 meeting agenda is a Board Resolution directing District Management to implement the actions necessary to achieve the District Transparency Certificate of Excellence.

Recognition in Special District Governance

As an instructor for the SDLF Leadership Academy, of course I feel strongly that Board member attendance at this four-module leadership development program is highly important and a wise investment of

taxpayer/ratepayer money. I will go so far as to say that the Academy will be the most beneficial training and networking opportunity experienced by this Board in their tenure as a director, and will result in financial savings to the District far in excess of the enrollment and travel costs. By attending the Leadership Academy and 10 additional hours of continuing education offered by CSDA, Board members can achieve a Recognition in Special District Governance Certification/Award. The District will receive a 1% discount on its liability and workers compensation insurances for each director attending, up to a maximum of 2%. The Academy is offered typically twice per year, once in northern and once in southern California. The proposed 2016/17 fiscal year budget will include the cost of director attendance to the academy. Grants are available to cover portions of the attendance costs.

Los Osos Groundwater Basin Boundary Modification

On March 28, 2016, the County of San Luis Obispo submitted an application to the State Department of Water Resources for revision of the Los Osos Groundwater Basin as approved by our Board on March 3, 2016; and by the County Board of Supervisors on March 22, 2016. The primary purpose of the boundary modification is to ensure consistency between state and local records.

Financial Highlights

Unanticipated Revenue: The District received final approval of, and payment for its liability claim in the amount of \$109,848.36 for District expenditures made in the repair of the Golden State Water system; which were caused by a contractor working on the sewer system in the area. Thanks go to Margaret for her diligent pursuit of this claim, Frank for his excellent management of incident.

Status of 2014/15 Fiscal Year Audit: As the Board is aware, the District is tardy in its completion of the required independent audit of its 2014/15 fiscal year financial statements. Since the March 2016 Board meeting, several significant events have occurred in the District's finance department, which affect the completion of the audit and delivery of financial reports to the Board and its committees. As of March 16, 2016, District Accountant Mike Doyel is no longer employed with the District. To fill the position of Accountant and make immediate improvement to the District financial system, I have engaged the services of a CPA firm (Warmerdam CPA Group, Ever Ventura) to oversee the improvements and ensure compliance with all accounting requirements and standards. In addition, I have entered into a temporary employment contract with the previous District Accountant, Dale Flynn, to assist Warmerdam with an understanding of the District finances, software and to complete a significant backlog of financial work; to assist in completion of the 2014/15 audit and prepare for a timely 2015/16 fiscal year audit.

As of the date of this report, our 2014/15 audit completion schedule is as follows:

- Week ending April 22, 2016 we will have balanced all cash accounts, assets and liabilities, and completed the required Actuarial Valuation in compliance with GASB 45.
- First week of May 2016 we anticipate the preparation and submittal of the 2014/15 State Controller's Report of Financial Transactions and Compensation Report.
- Delivery of the audited financial statements by our June 2, 2016 Board meeting

Delay in Preparation of Board Financial Reports: Due to over nine months of incomplete District financial work, which was the responsibility of the past accountant, a significant amount of work is necessary to determine the accuracy of the financial statements and past Board reports. The accuracy of the reports submitted to the Board so far this fiscal year cannot be confirmed at this time. Therefore, it would be inappropriate for management to deliver additional reports until the accuracy of all prior reports is confirmed. I have directed Dale and Ever to work continuously through the coming month to balance every account, review and reconcile every report, identify any discrepancies and keep me informed continuously. It is management's goal and directive to the financial team that accurate financial reports are to be submitted to the Board for your May 5, 2016 meeting.

Costs Associated with Remedies to District Financial Statements: With Mr. Doyel gone, the

District had no additional staffing qualified to perform technical financial functions, including the urgent need to complete the 2015 Fiscal year-end audit. I determined that it was immediately necessary for the District to contract with a Certified Public Accountant (CPA) qualified and experienced in public agency accounting practices. Due to the urgent and immediate need for this financial assistance, there was no time to circulate a Request for Proposals (RFP) and analyze results, shop for the best hourly rate or conduct phone interviews on the fly. I therefore contacted the Warmerdam CPA Group; a firm with which I am very familiar as they serve as contract accountant for another community services district, who is a client of my firm in Mariposa County. I have worked regularly over the past 18 months with Warmerdam's Ever Ventura, CPA, who I engaged specifically for this emergency situation. Mr. Ventura's scope of work includes responsibility for several very important functions through the end of the fiscal year on 6/30/16 including:

- Work to remedy the delinquent notices received from Employment Development Department (EDD), Internal Revenue Services and Social Security Administration. The delinquency notices were caused by the Quarterly and Annual payroll reports either not being filed or filed incorrectly with their respective agencies for the last couple of years.
- Assist the financial auditors with any documentation necessary to complete the June 30, 2015 financial audit before June 2016.
- File the delinquent Report of Financial Transactions and Compensation Report with California State Controller.
- Assist with updating the Board's financial and investment reports, ensuring their accuracy and revising as desired for functionality and understandability.

The cost of this emergency contract work with Warmerdam will not exceed \$10,000 through the end of the fiscal year. The table below shows the approximate cost associated with the entire financial resolution, excluding any late fees or penalties charged by the IRS or state.

Item	Monthly Cost	Cost (Savings) Through 6/30/16
Mike Doyel Salary	\$ (8,337)	\$ (16,674)
Warmerdam CPA	\$ 3,500	\$ 10,000
Dale Flynn	\$ 8,866	\$ 17,732
Total	\$ 4,029	\$ 11,058

We are also required by Government Accounting Standards Board (GASB) Statement No. 45 to conduct an actuarial valuation of the future cost of retiree medical expenses. This calculation must be completed every two years, and is typically completed by an accounting firm specialized in such valuations. The valuation report can cost between \$1500 and \$10,000 depending on the number of employees and other factors that affect the complexity of the calculation. The valuation must be completed before our 2014/15 audit can be finalized, as the expenses for retiree medical benefits are now required by GASB 45 to be included as a liability in the District's financial statements. We have signed an engagement letter with the firm James Marta & Company, CPA to complete the valuation within the next two weeks at a cost of \$1500.

In addition, Mr. Ventura estimates the cost of their services to perform the job functions of the District Accountant, and including payroll, accounts payable and financial reporting functions to be between \$3000 and \$4000 per month; a cost savings of \$4000 to \$5000 per month. Once the financial affairs of the District are in order, management will make a recommendation to the Board regarding whether to issue an RFP for accounting services, hire a replacement accountant or some other means of securing accounting services in the 2016/17 fiscal year.

Summary of District Revenue Sources and Timing

This past week there was a cash flow problem caused when an overdue payment to the State for Schedule A services in the amount of over \$940,000 was paid and funds had to be immediately transferred from Local Agency Investment Fund (LAIF) to cover the deficit. Property Taxes and Special Assessment revenues will be received in April which will help the cash flow situation. Additional funds will be transferred from LAIF

temporarily to cover any deficits that might occur in the next few months. The total District revenue and associated timing of receipt is summarized below:

Revenue Source	Amount	Timing
Property Taxes	\$ 1,991,932	Paid in April and December
Services Charges and Fees	\$ 1,998,240	Received monthly
Special Taxes and Assessment	\$ 1,848,038	Paid in April and December
Other Revenue	\$ 73,234	Throughout year
Small Grant	\$ 12,690	Reimbursement or advance of expense
Interest Received	\$ 16,919	Received monthly
Annual Total	\$5,941,053	

Mandatory Reporting Updates

State law requires that we publicly report and post on our website all reimbursements of over \$100 made to Directors, employees or the General Manager. Actions are being taken at this meeting to adopt the fiscal year as the reporting period for this report, and to amend existing District policies to require its annual preparation. We will be in compliance with this law in April 2016.

Another new state law effective July 1, 2016, SB 272 requires each local agency, in implementing the California Public Records Act, to conduct an inventory of data gathered by the agency that discloses what data is maintained by the agency, by whom, and with what frequency it is collected. The bill would require the inventory to be available to the public, including posting on its website. Our new website design company, Streamline, contains an SB 272 compliance tool which will facilitate compliance with this law before July 1.

Other Activities

- California Special Districts Association (CSDA)** - Attended March 18, 2016 SLO County CSDA Chapter Meeting –CSDA, or California Special Districts Association is a statewide association serving all types of special districts, and which provides education, legislative assistance in the state capitol, and other valuable resources for District Board members, managers and all staff. The SLO Chapter is the “child” of the statewide CSDA and brings resources and networking opportunities to our local area, and dealing with our specific issues. LOCSB Board President Marshall Ochylski is also President of the SLO Chapter of CSDA.
- Attended Manager’s Meeting** - March 25, 2016 attended meeting of the special district managers from throughout the county. This venue will likely occur 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.
- CSDA Legislative Grassroots Network Meeting** - As a member of the Board of Directors of CSDA and active in the legislative network, I participated in a March 10, 2016 conference call regarding several pieces of legislation of great interest or concern to CSDA, which are typically those that take away revenue from districts, cost additional money for compliance, restrict the way we spend money with no added benefit, or affect our operation or administration in a negative way. CSDA has been very successful in protecting special districts from bad legislation; another benefit of membership.
- 2016 Local Agency Formation Commission (LAFCO) Directory of Local Agencies** – The most recent version of a directory produced annually by LAFCO is available online at www.slolafco.com/Directory_2.htm. The directory provides information about public service providers in the county, including their water rates and boundaries.