

KINNELOA IRRIGATION DISTRICT
Regular Meeting – Board of Directors
1999 Kinclair Drive, Pasadena, CA 91107
Tuesday, June 18, 2019
3:00 p.m.
Minutes

DIRECTORS PRESENT: Tim Eldridge, Frank Griffith, Gordon Johnson, Gerrie Kilburn, Bill Opel

DIRECTORS ABSENT: None

STAFF PRESENT: General Manager Melvin Matthews, Sr. Facilities Operator Chris Burt, Office Manager/Board Secretary Bernadette Allen

1. CALL TO ORDER: Chair Gordon Johnson called the meeting to order at 3:00 p.m. A quorum of Board Members was present. The Agenda was reviewed. The auditors phoned the office to notify the Board that they were stuck in traffic and would be late. The Board agreed to proceed with the Agenda, and Item 3 would be discussed after the auditor's arrival.

2. PUBLIC COMMENT: District resident Dr. Dave Moritz was present and stated that he was glad to be here and thanked the Board for having him.
Auditors, Gail Egan, CPA, and Bobby Egan, CPA (arrived 3:10 p.m. - departed 3:59 p.m.)

4. REVIEW OF MINUTES: Agenda Item 4 out of order. The minutes of April 16, 2019, and May 21, 2019, were reviewed. Chair Gordon Johnson stated that he had requested that staff listen to the tape and confirm the written text captured the cost-of-living discussion on April 16th. He reviewed the minutes and had a discussion with the Board Secretary, and he is happy with the minutes. Director Opel requested the title be added to "Dr. Dave Moritz" in the minutes of May 21, 2019, Item 2, and the Chair requested the same edit be made to past minutes. It was motioned/seconded/carried unanimously-(Griffith/Opel-5/0).

"That the Board approve the minutes as corrected for filing and posting on the website."

5. REVIEW OF FINANCIAL REPORTS: Director/Treasurer Bill Opel reviewed the financial reports for May 31, 2019, highlighting that the year to date variance shown on the income statement is only \$2,697 behind. Water sales were down, and expenses were over budget. The General Manager answered questions regarding maintenance contractor expenses. Director Opel also highlighted the CalTrust balance and unrealized gain (loss) and suggested that the Directors may be interested in going to the CalTrust website for information about the fund. He added that cash flow was not as beneficial as it has been, but mainly because the District paid down the debt. Director Griffith asked if the staff would provide numbers for potential interest saving if payments were made more frequently and increased. The General Manager replied that the District can pay any amount over the installment payment, which would be applied to the principal, and he will provide analysis and figures as an information item at a future Board meeting.

It was motioned/seconded/carried unanimously-(Griffith/Kilburn-5/0).

"That the Board approve the financial reports for filing as presented."

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3. 2018 AUDIT: [Quotation marks in this Agenda Item indicate transcribed remarks.]

After the Chair welcomed the auditors Gail Egan and Bobby Egan, Gail Egan stated that had there been a disagreement with Management, the auditors would not have waited for a meeting to notify the Board. She affirmed that there were no disagreements with Management in performing the audit. The books were ready and the audit was performed with no difficulties. She specified that pages 7 and 8 of the audit report is the only document that belongs to the auditor. She stated that they are issuing an unmodified or clean opinion of the accounts of the District and the accounts are in accordance with government audit standards. She added, "Since this is also a special district, which has business elements, the accounting treatment is also that which you would find in an investor owned utility as well as taking into account the specific required governmental accounting standards as well as governmental disclosures."

Gail Egan continued, "The most significant and sensitive estimate and disclosures within what is going to be in almost every state and local government audit opinion is the retirement benefits, the participation in CalPERS, and not for this District, but there's something called OPEB, which is the employee benefits. This District does not have post-employment benefit liability, which is life-time healthcare, as many districts do. So, we don't have that liability issue, but the participation in CalPERS, as it was indicated, is a growing liability on most state and local government financial statements. The accounting standards continue to move on and move forward and evolve, so that the balance sheet presentation is such that all liabilities that are known or could be known are being incorporated within the financial statements, and the unfunded liability at CalPERS used to be just within a footnote. Now there is quite lengthy disclosure and schedules, required supplementary information. Half of the report in the footnotes, I think are taken up with the pension disclosure, in that is a long footnote. The data comes from a valuation from CalPERS. We don't come up with the data. The District obtains this data and includes it in their financial statement, and we audit it. Although, we rely on, and it's indicated here, we rely on the CalPERS actuary to come up with some of this sensitivity analysis. And, you can see that just a 1% change, actually, if we can flip to page 22, this is probably the most significant item within the financial statements. This is a sensitivity analysis that's obtained from PERS and PERS is actually using a very high earnings rate. They've not achieved the earnings rate for which they've projected their liability, ever. In fact, last year they actually had a 1% decline in their investments. So, this sensitivity proportion on 22 is if they had lowered the earnings rate, discount rate in your pension liability by 1 full percent, the liability is roughly, what is that? \$180,000 difference. So, this is a coming bubble and command on your cash. Where you have a very good borrowing rate, you're going to be seeing from PERS, the percent of payroll dollars that they require you to contribute to be continuously increasing to try and quell some of this unfunded dollars."

Director Opel asked, "And this is not due to any benefits our own employees are gonna get. This is our share of liabilities in the total fund?"

Gail Egan replied, "This is already for committed benefits that have been provided to, actually there's now 2 PERS funds. The people that were hired within the last 2 years are in PEPR (Public Employees' Pension Reform Act). They receive a different benefit that is supposed to be less generous and pushes out the retirement age just a little bit to try to also lower the

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unfunded liability. So, most of the liability that this would then, these financial statements are for employees that have been here for quite a long time. And, there's not been any change in the benefit formula, and for a while, PERS had printed and provided to Districts, and they haven't done it, in a while. You actually have to pay for it, I think. If you were to say, and this is not a recommendation, if you were just to say, all you folks here, we recognize you had a benefit and this is it, but we're freezing it, and we're going to go to the equivalent of a 403B, what would it take for us either to, freeze the benefit and fully fund it or to leave PERS. At one point in time, Mr. Matthews obtained that and we had it disclosed, but it's not been obtainable, because you have to pay for it now. And, since it's not being contemplated, why do that. But, the covered, the amount that PERS is going to require you to pay on covered salaries will continue to go up. So, from a cash flow standpoint, since you have very good borrowing rate, I'm not sure I would pay for it, pay it off earlier. Because, if PERS lowers their discount rate, and we have a bigger liability on the financials, the banking sources are going to look at these unfunded liabilities that are now sitting on your books, and they make you a less worthy credit, as far as the banks go. So, we have clients, other clients that are trying to fund, increase their funding into PERS so that the unfunded is down in the pool, so that the liability is off their balance sheet because they plan to borrow to do some major projects. So, that's the most significant disclosure, most sensitive disclosure within the financial statements. The rest, and this is a significant audit area, the rest is pretty straight forward. You deliver water to your customers. You pay for the water. And, you continue to build out your plant to make sure that it's maintained such that, that water is delivered without any major system breaks or like. Everything else is fairly consistent year to year, and there's no other new required disclosures." Gail asked if there were any questions. Director Opel requested corrections to: Item 3 - page 8, paragraph 5, the last sentence the word "decline" looks like "dedine." And he questioned on Item 3 - page 3, if the Board Officers and Personnel were listed correctly. After some discussion, Gail Egan commented that it may be clearer if the header was changed from "December 31, 2018 and 2017" to "As of December 31, 2018." The Staff was directed by the Board to correct the Board officers and Personnel listed to be those who were in place as of December 31, 2018. And, Item 3 - Page 15, Board of Directors should also be corrected. Director Opel commented that he thought that in the head notes, that the character of the District was embodied very well, and the turns of phrase on what we do and how we do it, were really well stated. The General Manager stated that this is the District's section of the report, which he writes. Gail Egan added that it's a testament to this District that we have folks here who are aware of what management's responsibility is, and they provide a very good management's discussion and analysis. Director Opel commented that he thinks the District, if it's possible in a reasonable way, freeze the CalPERS obligation and move to something like a 403B. The auditor recommended that the Board seek out District's counsel on pension changes. The General Manager stated that the District can take the first step to find out what the District can do. Whether the District should make pension changes is another matter. Director Opel requested that the minutes have a full reflection of the gravity of the potential risk of the pension plan.

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Gail Egan concluded, “the auditor’s job also is to look at the financial statements and question whether or not you have a growing concern. That is an audit step that we would do on every single audit. That the culmination, the last step is to look at the account, once you have everything classified, and we have current assets over current liabilities, which is an indication that we still do not have a liquidity problem.”

Director Opel asked for clarification about CalTrust and sensitivity to rate fluctuations and the value of the bonds.

Gail Egan replied, “On the notes to the financial statements on page 17 [Item 3 – page 19], the middle paragraph discusses CalTrust and what the composition of the securities in CalTrust are. And, the whole point of having gone to CalTrust was to, our understanding, the District went to CalTrust looking for safety and security, in yield, above what was in LAIF. Because, when this District went into CalTrust, there was rumor that the State of California was going to dip into funds that were held at LAIF. And, it was a precaution. I thought it was prudent of the Board to pull money out of LAIF, because everything that was being said at the state level, was like ‘Can they do that?’ Nobody ever knew or thought that they would ever touch LAIF money. Then, I think Mr. Matthews was tasked with the job of finding something safe and yield friendly as LAIF but was clearly District funds.”

The General Manager added, “Yes, I think that’s the characterization. And, of course, the Board can give me additional direction. But, I think Gail has summarized what the decision was at the time. And, I still think it’s the right decision.” He concluded, “the Board at any time can review our investment policy and if the Board would like to change that, then we can transfer funds, either back into LAIF or into other approved investments.”

It was motioned/seconded/carried unanimously-(Opel/Eldridge-5/0).

“That the Board approve publishing the Auditor’s Report as presented, with the exception of the corrections identified in the discussion.”

The Board thanked the auditors, and the auditors left the meeting.

6. GENERAL MANAGER’S REPORT: The General Manager and Board reviewed the report.

I.A. Delinquent Accounts: Director Griffith asked if the 1 shut off was a carry-over from previous months and in what Division. The General Manager said it was the same account, in Division 3.

II.C. Water Main Improvement Project: The kickoff meeting with the design firm was held at the office and at the project location. Construction will likely begin next year, after the rainy season.

II.D. House Tunnel: The General Manager and Facilities Maintenance Worker inspected the pipeline, fixed the obvious break, but found another leak in the pipeline. Staff is currently assessing whether or not staff can repair this leak or will need outside contractor.

III.A. Water Leak/Water Waste/Water Quality/Customer Contact: The Chair asked about the procedure when there is a leak suspected at a customer’s house. The Office Manager stated that in October of 2016, the District started using the information gathered from the monthly meter readings. When water flows through the meter for a continuous 24 hours or more, the account shows up on a leak report. The list of accounts is immediately reviewed for any high usage and phone calls are made to reach the customer. The office also sends them a letter

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about the potential leak. Accounts on the list whose usage is in the normal range are also sent a letter. The processing time is 1 to 2 days. Customers who are called or who receive the letter often contact the office to request that their meter be checked, especially if they think they have found the leak and repaired it. Then, the office schedules a time for the facilities operator to go to the customer's house. Each month, the office staff does everything we can so that a customer is not surprised with a high water bill due to a leak. If it's a customer that we know is gone, then an extra effort is made to reach additional contacts.

The General Manager added that with any observable water, field staff take positive action to determine where the water is coming from and if necessary, shut off the meter. Those situations do not get a letter, they get a knock on the door, door hangers, phone calls, and/or emails. Neighbors also report leaks in the District. Ideally, we hope we catch leaks soon. Occasionally, the leak is in a remote location of the yard, and the notice letter is the first indication a customer has that there may be a leak.

Director Opel asked if the District has the capacity to watch the flow of the meter remotely. The General Manager said, "No, not remotely." For the District to monitor the data remotely, it would require a change to the meters and access to cellular towers. However, there are consumer devices that are compatible with our meters, self-installed, no plumbing and uses technology that transmits water usage to a hub, using wi-fi. It would be a huge capital expense to convert to a type of system that we control, but individual people who want real-time monitoring have that capability with our system. Director Johnson recommended that this type of device be shared in a newsletter. The device the General Manager is personally trying for his home is called Flume. More information can be found at Flumetech.com

Director Kilburn asked the staff to investigate a possible water leak on west end of Clarmeya, where water is running in the road. The leak may be on a property on Meyerloa. The General Manager said the staff will look for it.

III.B. Current and Completed Capital Improvement, Facilities Improvement, Maintenance and Repair Projects and Activities: The General Manager stated that he has revised this section to give the Board a clearer picture of the activities and projects in the District.

III.C.5 Replace 1996 Chevrolet and 1999 Ford pickups. Director Griffith asked if both the trucks were running. The General Manager stated that the '96 has been taken out of service. Director Griffith asked if the '96 will be sold and the General Manager said that he will try to sell it and get a fair price.

III.C.7 Test Advanced Water Meter Analytics. The General Manager stated that his plan is to get a small number of the devices, such as the Flume mentioned earlier, test them and make sure the cellular reception is sufficient in various parts of the District.

The Chair thanked the General Manager for the information provided.

7. WATER MAIN IMPROVEMENT PROJECTS: The General Manager reviewed the Civiltec Engineering proposal for preparation of plans and specifications and bidding documents for the Brown/Glen Replacement Pipeline Project. He stated that as with all proposals, the actual billing will be based upon time spent on the project. The cover letter described the tasks that will be provided and the scope of work. Internally, the project has been divided into 3 phases. Regardless of the engineering, it does not obligate the District to construct any portion of it.

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The General Manager recommended that the Board approve engineering for phases 1 and 2. The General Manager estimated the construction costs for all 3 phases is about 1 million dollars based on the 2018 estimate. If the District only does phase 1 and 2, the construction cost will be much less.

It was motioned/seconded/carried unanimously-(Opel/Griffith-5/0)

“That the Board accept the Civiltec Engineering proposal dated May 24, 2019, for Engineering Design Services for phases 1 and 2 of the Brown/Glen Replacement Pipeline Project.”

8. DIRECTOR REPORTS AND/OR COMMENTS: There were no reports and no comments.

9. CALENDAR: The next regular meeting will be at 3:00 p.m. on Tuesday, July 16, 2019. The Chair, Gordon Johnson, said he will be unavailable for the next meeting in July.

10. ADJOURNMENT: The meeting was adjourned at 4:30 p.m.

Respectfully submitted by,



Bernadette C. Allen
Board Secretary