



SAN ANTONIO WATER COMPANY MEETING AGENDA

for ADMINISTRATIVE & FINANCE COMMITTEE

May 25, 2021 @ 3pm

By Virtual/Online or Teleconference Only

Please join the meeting from your computer, tablet or smartphone.

<https://global.gotomeeting.com/join/387752453>

You can also dial in using your phone. United States: : [+1 \(646\) 749-3112](tel:+16467493112) **Access Code: 387-752-453**

▪ Call to Order

1. Recognitions and Presentations:

2. Additions-Deletions to the Agenda:

3. Public Comments

This is the time for any shareholder or member of the public to address the committee members on any topic under the jurisdiction of the Company, which is on or not on the agenda. Please note, pursuant to the Brown Act the Committee is prohibited from taking actions on items not listed on the agenda. For any testimony, speakers are requested to keep their comments to no more than four (4) minutes, including the use of any visual aids, and to do so in a focused and orderly manner. Anyone wishing to speak is requested to voluntarily fill out and submit a speaker's form to the manager prior to speaking.

4. Approval of Committee Meeting Minutes

Regular Committee Minutes of March 23, 2021.

5. Administrative and Financial Issues:

A. 401K Reinstatement and Proposed Changes

Review proposed changes to 401k plan and provide recommendation

B. Update to Purchasing Policy

Review revision update to policy and provide recommendation

C. Reserve Funds Policy

Review current policy and determine if further revisions are necessary

D. COVID Response

Verbal update

6. Closed Session: None

7. Committee Comments and Future Agenda Items:

- This is the time for committee's comments and consideration on future agenda items relative to the interests and business of the company and its shareholders.

8. Adjournment:

The next regular Administration and Finance Committee meeting will be held on July 27, 2021 at 3:00pm

NOTE: All agenda report items and back-up materials are available for review and/or acquisition from the Company Office (139 N. Euclid Avenue, Upland, CA.) during regular office hours, Monday through Thursday [7:00 – 11:30 and 12:30 – 5:00] and alternating Fridays [7:00 – 11:30 and 12:30 – 4:00]. The agenda is also available for review and copying at the Upland Public Library located at 450 N. Euclid Avenue.

POSTING STATEMENT: On May 21, 2021, a true and correct copy of this agenda was posted at the entry of the Water Company's office (139 N. Euclid Avenue) and on the Water Company's website.

SAN ANTONIO WATER COMPANY
ADMINISTRATION and FINANCE COMMITTEE (AFC)
MINUTES

March 23, 2021

An open meeting of the Administration and Finance Committee (AFC) of the San Antonio Water Company (SAWCo) was held virtually and called to order at 3:02 p.m. on the above date as noticed. Committee Members present were José Sanchez, Bob Cable, Rudy Zuniga, and Tom Thomas. Also in attendance were SAWCo's General Manager Brian Lee and Assistant General Manager Teri Layton.

1. Recognitions and Presentations: Mr. Lee recognized that this is Director Sanchez's last AFC meeting. He thanked Director Sanchez for his time and expertise as the chairman of the Committee.
2. Additions-Deletions to the Agenda: None.
3. Public Comments: None.
4. Approval of Committee Meeting Minutes: Director Zuniga moved and Director Cable seconded to approve the meeting minutes of January 26, 2021. Motion carried unanimously.
5. Administrative and Financial Issues:
 - A. **Financial Reporting** – Director Sanchez asked for any comments on the mock-up financial statements included in the agenda packet. Director Thomas felt the reports were a little easier to understand than the current reports utilized. Director Cable felt the reports were more straight forward.

Director Sanchez mentioned the fact the reports are in monthly, quarterly, and annual increments; however, utility billing takes place every two months. Therefore, generating a quarterly report might only make sense one time per year due to no revenue being reported. He suggested the quarterly report not be generated as it is of little value. There were talks of triannual reporting; however, it was determined it would not provide much more information than the year-to-date.

Director Sanchez recommended moving forward with the monthly income statement, the year-to-date, and the year-to-date balance sheet reports as presented in Item 5A.

Director Cable moved and Director Sanchez seconded to move forward with the monthly income statement, the year-to-date, and the year-to-date balance sheet reports as presented in Item 5A. Motion carried unanimously.

Mr. Lee advised the next step is to ensure SAWCo's accounting software can generate these types of statements in the format presented so that they are auditable.

- B. **Reserve Fund Targets** – Mr. Lee reviewed SAWCo policy on fund targets which provides broad targets such as 90 to 180 days or 5% to 20%. Mr. Lee would like to put dollar amounts to these fund targets. Director Sanchez agreed and stated it should be part of the budget process each year. He felt it advantageous to have a separate target ratios monthly report showing actual reserve to targeted reserve.

Discussion regarding what the report should include and how it should be laid out followed. Staff will develop a draft report and present it to the Board for review, adjustments, and determination on whether it should be included in every Board meeting agenda packet.

- C. *Buy Back Policy for Vacation and Sick Leave*** – Ms. Layton reminded the Committee that at the last AFC meeting they considered several of staff’s recommendations regarding employee benefits. Vacation and sick leave benefits were deferred for further research.

Vacation buyback is offered by several local water agencies such as West Valley Water District, The City of Upland, and Cucamonga Valley Water District (CVWD). Each agency requires a set amount of vacation to remain on the books, a set amount to be utilized each year, and a set amount that can be bought back.

After considerable discussion, Director Sanchez moved and Director Cable seconded to recommend the Board approve allowing for half the number of hours of vacation taken by an employee during the year to be bought back by the employee so long as 40 hours of vacation remained on the books for said employee with the buyback commencing in November of each year. Motion carried unanimously.

Ms. Layton advised the Committee of other local water agencies such as CVWD, Monte Vista Water District, and East Valley Water District that offer sick leave buyback as an employee benefit and described the differences between the plans.

After considerable discussion, Director Cable moved and Director Zuniga seconded to recommend the Board approve 50% payout of sick leave to employees that retire from SAWCo. Motion carried unanimously.

- D. *Salary Table Adjustment***– Mr. Lee reported this item is a yearly review of the cost of living based on the Consumer Price Index (CPI) for Riverside/San Bernardino/Ontario for Urban Wage Earners and Clerical Worker (CPI-W). From January 2020 to January 2021 there was an increase in the CPI of 2.4%. As such, he proposes the AFC recommend the Board approve adjusting SAWCo’s salary tables upward by 2.4%. Mr. Lee reminded the AFC that increasing salary ranges does not automatically raise employee pay. Employees at the bottom of their salary range will see an increase to the newly adjusted base pay and those employees at the top of their pay range will have the opportunity for a merit increase during their annual performance evaluation. There are currently no employees that will receive an automatic increase to their pay.

Director Cable moved and Director Sanchez seconded to recommend the Board approve adjusting SAWCo’s salary tables upward 2.4% based on the Riverside/San Bernardino/Ontario for Urban Wage Earners and Clerical Worker (CPI-W) change from January 2020 to January 2021. Motion carried unanimously.

- E. *Workers Compensation Insurance*** – Director Thomas stated the increase in premiums is equal to the increase in payroll.

Director Cable moved and Director Zuniga seconded to recommend the Board approve the automatic renewal of SAWCo’s Workers’ Compensation Insurance with Cal-Mutual JPRIMA The Zenith, a Fairfax Insurance Company for 5/1/2021 to 5/1/2022 at an annual premium of \$15,371. Motion carried unanimously.

- F. COVID Response** – Mr. Lee stated there was nothing new to report since the update at the Board meeting held the previous week.

Director Sanchez recommended staff investigate the possibility of water utility employees being cleared to receive the COVID-19 vaccinations as they provide a critical service. Ms. Layton advised the Committee that the vaccine is now available for field staff but is not yet available for office staff. All employees were made aware of this status change.

6. Closed Session: None.
7. Committee Comments and Future Agenda Items: Director Thomas congratulated Director Sanchez for his hard work during his last meeting as Chair of the AFC. Director Sanchez replied he couldn't have done it without staff and offered his expertise for future questions regarding the financials.
8. Adjournment: Seeing no further business, the meeting was adjourned at 4:12 p.m.

Assistant Secretary
Brian Lee

Item Title: 401K Reinstatement and Proposed Changes

Purpose:

To review, discuss and recommend proposed changes to the 401k plan

Issue:

Develop changes to the 401k plan based on prior benefit approval and consider any further recommendations before reinstatement of 401k plan.

Manager's Recommendation:

Review, provide feedback and recommend to the Board the 401k changes in the process of reinstatement of the 401k plan.

Background:

A reinstatement of the 401k plan is necessary to keep up with any law changes that have occurred. The Company is due to update their 401k plan this year.

The Board recently reviewed and approved some employee benefit changes. One such change would be beneficial for new personnel. The current 401k plan requires an individual to be with the Company for 1 year before being eligible to participate in the 401k. The current waiting period is a carryover from many years ago when the Plan was first installed. In today's world it is common to see a shorter waiting period that is often tied to qualifying for other employee benefits, like health insurance. To be more in line with other retirement systems like PERS, the Board approved not having to wait for 1 year to participate in the 401k plan.

Management reviewed other changes to the 401k plan that made sense and they are as follows:

- Currently, the plan allows an individual to work at 60 and collect from their 401k and retirement age is 65. The third-party administrator is investigating why have a different age for retirement. He is not aware of any reason to have two different ages. [PERS offers anywhere from age 50 to 62 as retirement age]
- Simplify the wording and calculation of formula [current wording is very confusing]
- Allow employee % deductions only [administratively easier to process]

Impact on the Budget:

None.

Previous Actions:

Item Title: Update to Purchasing Policy

Purpose: To review and provide feedback to purchasing policy update

Issue:

Review management's update to purchasing policy and provide any feedback or direction.

Manager's Recommendation:

Review, provide feedback and/or approve update to company's purchasing policy.

Background:

Sometime in 1996 when the company was under the partnership of San Antonio-West End Operating Company, an internal purchasing policy/procedure was established. It was further refined in 2002. The purchasing policy and flow chart are attached for reference.

The updated policy attempts to remove procedural items, includes ethical guidance, reasonable purchasing and increases the need for purchase orders from \$50 or more to \$100 or more. It also increases the need for three quotes from \$500 or more to \$5,000 or more.

Any further feedback is welcomed.

Impact on the Budget:

None.

Previous Actions:

SAN ANTONIO WATER COMPANY PURCHASING POLICY

Purchase Orders

To insure proper fiscal control in the commitment of company monies, all individual transactions with outside vendors with a value of \$50 or more require the use of a properly executed and pre-approved purchase order. Purchase orders of \$500 or more also require the submittal of a minimum of three quotes from independent vendors.

Purchase orders originating in the office must be approved by the requestor's supervisor. Purchase orders originating from the field must be approved by the Assistant Manager. Emergency field purchase orders for transactions up to \$1,000 can be approved by the Water Utility Foreman.

Each purchase order must be recorded on the sequential log form showing the following:

- Purchase order number
- Purchase order date
- Vendor name
- Description of item(s)/services(s) requested
- Requestor's name

After the purchase order is approved, the requestor must file the yellow copy in the purchase order binder and give the original to the Accounting Clerk. If the original needs to be mailed to the vendor, a copy must be given to the Accounting Clerk.

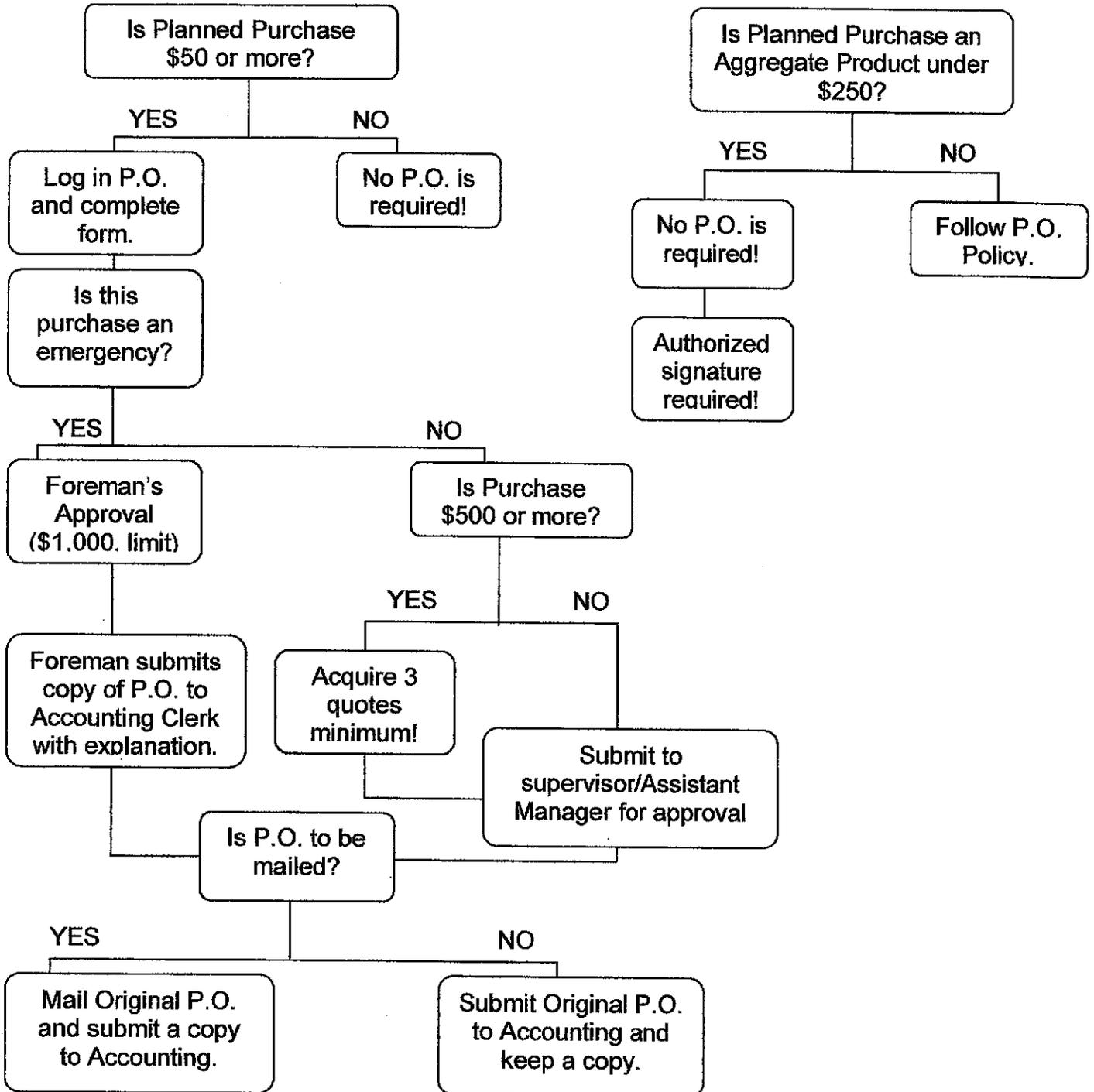
When a packing slip or sales receipt is received with the purchased goods, the contents must be verified and the slip must be signed by the individual taking delivery of the items being received. The signed packing slip and/or sales receipt is then coded with the proper expense account and given to the Accounting Clerk to be matched with the purchase order. All packing slips and sales receipts must be legible.

Local rock companies are exempt from purchase order documentation for purchases under \$250. The Assistant Manager will provide the rock companies with the names of personnel authorized to make purchases under \$250.

Petty Cash

Management pre-approval is required for any purchases using petty cash. Petty cash may only be used for purchases under \$50. A petty cash form must be filled out and signed by the requestor at the time of reimbursement. An original receipt documenting the purchase must be attached to the completed petty cash form.

PURCHASE ORDER SEQUENCE OF EVENTS





Purpose

This policy establishes standards and guidelines for the procurement of supplies, equipment, construction, and services to ensure that they are obtained as economically as possible through an open and competitive process, and contracts are managed with good administrative practices and sound business judgement.

Code of Conduct

A Code of Conduct shall govern the performance, behavior and actions of the Company, including Board members, employees, or agents who are engaged in any aspect of procurement, including—but not limited to—purchasing goods and services; awarding contracts, or the administration and supervision of contracts. Conflict of interests may arise when any employee, Board member, or agent of SAWCo has a financial, family or any other beneficial interest in the vendor firm selected or considered for an award. No employee, Board member, or agent of San Antonio Water Company (SAWCo) shall participate in the following:

- The selection, award, or administration of a bid or contract if a conflict of interest is real or apparent to a reasonable person.
- Do business with, award contracts to, or show favoritism toward a member of his or her immediate family, spouse's family or to any company, vendor or concern who either employs or has any relationship to a family member, or award a contract or bid, which violates the spirit or intent of procurement laws and policies established to maximize free and open competition among qualified vendors.
- Solicit nor accept gratuities, gifts, or consulting fees, trips, favors or anything having a monetary value from a vendor or potential vendor on an individual basis. During the Christmas season gift baskets and such are received from various contractors and vendors. Any such gifts are shared among the employees as a group or names are drawn for distribution.

Purchase Orders

Any purchases must be business related and the buyer is to be responsible when utilizing company money. To insure proper fiscal control in the commitment of Company monies, all transactions with outside vendors with a value of \$100 or more require the use of a properly executed and pre-approved purchase order. Purchase orders of \$5,000 or more also require the submittal of a minimum of three quotes from independent vendors. Purchase orders must be approved by management.

No purchase order will be necessary for vendors or consultants that have a contract or agreement with SAWCo. This includes utility vendors. Management should be notified of any change in the contract or agreement. Local rock companies are exempt from purchase order documentation for purchases under \$250.

Petty Cash

Petty cash may be used for purchases under \$50. A petty cash form must be filled out and signed by the requestor at the time of reimbursement. An original receipt documenting the purchase shall be attached to the completed petty cash form. Management approval is required for any purchases using petty cash.

Purchasing Management

Price fluctuations are bound to occur for anything you buy. Instead of buying large quantities of items you notice the price increasing for, it's better to buy smaller quantities more often. This allows you to sell off the items quickly, rather than tying up your working capital in overpriced inventory. Buying in smaller quantities allows you to save money on your purchases, and reduce demand for the item, which encourages the price to drop. When prices return to their normal level, you can start buying in your larger quantity again.

Always comparison shop. Before buying anything, contact multiple suppliers and send a request for quotation (RFQ) so you can get quotes on things you want to purchase before making any final decisions. This helps to ensure you're getting the best value possible and assists with cost estimates.

While it is tempting to automatically go with the lowest price, don't always assume that's the best deal. If you're buying a subpar product, or it takes forever to be delivered, this can cause issues that ripple throughout our business. Sometimes, it's better to pay a bit of a premium to make sure you're getting quality materials that you'll receive on time.

Even if you notice a single vendor can meet all of your purchasing needs at affordable prices, you should never completely rely on the vendor. It's always best to maintain contact with other suppliers and keep an eye out for new ones. This way, our business won't suffer if our primary vendor is unable to ship the goods on time or suspends operations for any reason. It's a great way to get better discounts on your materials, too.

Item Title: Reserve Funds Policy

Purpose: To update current reserve funds policy allowing ability to transfer between Operating Reserves and Depreciation & Obsolescence Reserves

Issue: Current reserve fund policy approved last year does not provide clear transfer instructions and earlier Board Resolution No. 2012-07-01 establishes restricted transfer instructions.

Manager's Recommendation:

Review, provide feedback and recommend any changes to the attached reserve funds policy.

Background:

On June 19, 2012, the Board approved Board Resolution No. 2012-07-01 which identified the following changes:

- The D&O Reserve opening balance of \$5,076,582
- Combined all reserves at the time into 1 reserve
- Money to be added to reserve was to be from proceeds from sale of stored water and any positive balances on any operating account at year end
- The Board of Directors reserved the right to transfer money out of reserve

On February 18, 2020, the Board approved the following reserve policies setting a target range:

- Operating reserve – 90-180 days budgeted operating expense
- Capital Investment and Depreciation Reserve Funds [D&O Reserve] – 5%-20% of Company's total property & equipment from auditor's statement
- Debt Service Reserves – Minimum as set forth in borrowing documents

The Company currently does not have any debt and does not require any reserves in the Debt Service Reserves Fund.

In addition to the above action, the Board on February 16th of this year, approved the AFC's recommendation to set up a Facility Modernization Fund for the purpose of funding rehabilitation of abandoned property and a new office and yard facility in the future.

Management is seeking a way to administer the target funds as established by Board action and the restraint to transfer funds into the D&O Reserves. The attached policy is vague on transfer instructions and staff is recommending incorporating Committee feedback into the policy.

Impact on the Budget:

None.

Previous Actions:



Purpose

Fiscal responsibility requires anticipating the likelihood of, and preparing for, unforeseen events. It is the purpose of this Reserve Policy to ensure that sufficient funds are available for current operating, capital, and debt service needs. Reserve Funds (Funds) will be accumulated and maintained to allow the Company to fund expenditures in a manner consistent with the Company's Capital Improvement Plan and avoid rate fluctuations due to changes in cash flow requirements.

The Board of Directors will designate specific fund accounts and establish minimum fund balances that it has determined to be in the best interest of the Company. The Board will annually review the level of Funds.

General Provisions

Guidelines

The Company has established and will maintain the following primary reserve funds:

- Operating Reserve Funds
- Capital Investment and Depreciation Reserve Funds
- Debt Service Reserve Funds

Each fund will be maintained in a manner that ensures financial soundness and provides transparency to Company Shareholders. Minimum fund balances stated in this policy are considered the minimum necessary to adequately provide for: compliance with applicable statutory requirements, financing repair and replacement of capital facilities, economic uncertainties and financial hardship due to disasters or economic downturn.

The minimum established for each Fund represents the baseline financial condition that is acceptable to the Company.

Fund balances will be reviewed by the Board on an annual basis at or near the end of the fiscal year. Operating Reserve Fund balance that exceeds the established maximum will be transferred annually into the Capital Reserve Fund.

On an as-needed basis, monies from the Capital Reserve Fund can be used to pay for operating emergencies as a supplement to the Operating Reserve Fund.

If the Capital Reserve Fund balance exceeds the established maximum, the Board will make a determination regarding reallocation of excess monies.

Delegation of Authority

The Board has sole authority to amend or revise the Reserve Funds Policy.

Operating Reserves

Purpose

The Operating Reserve Fund is used for unanticipated operating expenses and to meet routine cash flow needs.

Target Level

The minimum target level for the Operating Reserve is 90 days of Company's budgeted total operating expenses.

The maximum target level for the Operating Reserve is 180 days of Company's budgeted total operating expenses.

Events or Conditions Prompting the Use of the Fund

Staff may routinely utilize this fund to cover temporary cash flow deficiencies caused by timing differences between revenue and expenses.

The Board may determine to use this fund for extraordinary decreases in revenues or unexpected increases in expenses.

Periodic Review Dates for Balances

Operating Reserve fund balance will be approved by the Board during preparation of annual budget.

Capital Investment and Depreciation Reserves

Purpose

The Capital Investment and Depreciation Reserve Fund is intended for:

- The planned replacement of capitalized assets when they reach the end of their useful lives.
- The emergency replacement of capitalized assets when they have catastrophically failed.

Target Levels

The Company will strive to maintain a minimum balance totaling 5% of Company's Total Property, Plant and Equipment value as reported in the most recent Independent Auditors' Report.

The Company will strive to maintain a maximum balance below 20% of Company's Total Property, Plant and Equipment value as reported in the most recent Independent Auditors' Report.

Events or Conditions Prompting the Use of the Fund

The Board will determine when a condition exists matching the purpose of this fund.

Periodic Review Dates for Balances

Capital Reserve fund balance will be approved by the Board during preparation of annual budget.

Debt Service Reserves

Purpose

The Debt Service Reserve Fund is intended to comply with restrictions set forth in legal documents pertaining to the Company's borrowing of money. These funds may be held in trust in favor of the loan holder.

Target Level

The Company will maintain a minimum balance as determined by conditions set forth in the borrowing documents.

The Company will strive to maintain a maximum balance that is no more than required to ensure continued compliance with conditions of the borrowing documents.

Events or Conditions Prompting the Use of the Fund

As stipulated in the borrowing documents authorized by the Board.

Periodic Review Dates for Balances

Debt Service Reserves will be reviewed by staff on a regular basis consistent with the payment schedule conditions of the borrowing documents.