



**SOUTH SAN LUIS OBISPO COUNTY  
SANITATION DISTRICT**

Post Office Box 339, Oceano, California 93475-0339  
1600 Aloha, Oceano, California 93445-9735  
Telephone (805) 489-6666 FAX (805) 489-2765  
[www.sslocsd.org](http://www.sslocsd.org)

**AGENDA  
BOARD OF DIRECTORS MEETING**  
City of Arroyo Grande, City Council Chambers  
215 East Branch Street  
Arroyo Grande, California 93420

**Wednesday, January 20, 2016 at 6:00 p.m.**

**Board Members**

John Shoals, Chair  
Matthew Guerrero, Vice Chair  
Jim Hill, Director

**Agencies**

City of Grover Beach  
Oceano Community Services District  
City of Arroyo Grande

**Alternate Board Members**

Mary Lucey, Director  
Tim Brown, Director  
Barbara Nicolls, Director

Oceano Community Services District  
City of Arroyo Grande  
City of Grover Beach

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**1. CALL TO ORDER AND ROLL CALL**

**2. PUBLIC COMMENTS ON ITEMS NOT APPEARING ON AGENDA**

This public comment period is an invitation to members of the community to present comments, thoughts or suggestions on matters not scheduled on this agenda. Comments should be limited to those matters which are within the jurisdiction of the District. The Brown Act restricts the Board from taking formal action on matters not published on the agenda. In response to your comments, the Chair or presiding Board Member may:

- Direct Staff to assist or coordinate with you.
- Direct Staff to place your issue or matter on a future Board meeting agenda.

Please adhere to the following procedures when addressing the Board:

- Comments should be limited to three (3) minutes or less.
- Your comments should be directed to the Board as a whole and not directed to individual Board members.
- Slanderous, profane or personal remarks against any Board Member, Staff or member of the audience shall not be permitted.

Any writing or document pertaining to an open-session item on this agenda which is distributed to a majority of the Board after the posting of this agenda will be available for

public inspection at the time the subject writing or document is distributed. The writing or document will be available for public review in the offices of the Oceano CSD, a member agency located at 1655 Front Street, Oceano, California. Consistent with the Americans with Disabilities Act (ADA) and California Government Code §54954.2, requests for disability-related modification or accommodation, including auxiliary aids or services, may be made by a person with a disability who requires modification or accommodation in order to participate at the above referenced public meeting by contacting the District Manager or Bookkeeper/Secretary at (805) 481-6903. So that the District may address your request in a timely manner, please contact the District two business days in advance of the meeting.

### **3. CONSENT AGENDA:**

The following routine items listed below are scheduled for consideration as a group. Each item is recommended for approval unless noted. Any member of the public who wishes to comment on any Consent Agenda item may do so at this time. Any Board Member may request that any item be withdrawn from the Consent Agenda to permit discussion or to change the recommended course of action. The Board may approve the remainder of the Consent Agenda on one motion.

**3A. Review and Approval of Minutes of Meeting of January 06, 2016**

**3B. Review and Approval of Warrants**

### **4. PLANT SUPERINTENDENT'S REPORT**

### **5. BOARD ACTION ON INDIVIDUAL ITEMS:**

#### **5A. 2014/15 AUDIT PRESENTATION**

Staff recommends that the Board review and approve the Fiscal Year 2014/15 Audit.

#### **5B. COST OF LIVING ADJUSTMENTS FOR DISTRICT STAFF; STAFFING ALLOCATIONS; CERTIFICATION STIPEND FOR ALL OPERATORS**

Staff recommends that the Board approve

1. A two percent (2%) cost of living adjustment (COLA) for District staff and adopt Resolution 2016-340;
2. The creation of a new part-time classification of Plant Worker;
3. The Summer Intern Program; and
4. Authorize that all operators are eligible for the Higher Operator Grade Program.

#### **5C. REPORT ON REVIEW OF PAST MANAGEMENT PRACTICES BY KNUDSON & ASSOCIATES; REQUEST FOR FUNDING**

Staff recommends that the Board:

1. Receive and file the Review of Management Practices report prepared by Knudson & Associates.
2. Direct staff to carry out the suggestions in the Report.
3. Approve additional budget in the amount of \$14,205.53 to complete the project.

**6. MISCELLANEOUS ITEMS**

**6A. Miscellaneous Oral Communications**

**6B. Miscellaneous Written Communications**

**7. VERBAL REPORT BY INTERIM DISTRICT ADMINISTRATOR**

This item gives the District Administrator the opportunity to present future agenda items.

**8. ADJORNMENT**

**SOUTH SAN LUIS OBISPO COUNTY SANITATION DISTRICT**

City of Arroyo Grande, City Council Chambers  
215 East Branch Street  
Arroyo Grande, California 93420

Minutes of the Meeting of Wednesday January 06, 2016  
6:00 P.M.

**1. CALL TO ORDER AND ROLL CALL**

Present: Chairman John Shoals, City of Grover Beach; Vice Chairman Matthew Guerrero, Oceano Community Services District; Director Jim Hill, City of Arroyo Grande

District Staff in Attendance: John Clemons, Interim District Administrator/Plant Superintendent; Gilbert Trujillo, District Legal Counsel; Amy Simpson, District Bookkeeper/Secretary.

**2. PUBLIC COMMENTS ON ITEMS NOT APPEARING ON THE AGENDA**

Chairman Shoals opened the public comment period.

Julie Tacker has concerns over Director Guerrero sitting as Vice Chair when the OCSD has elected Mary Lucey as the Board representative for the OCSD.

John Carter submitted a letter to the Board and spoke on the vagrant population around the plant. He suggests putting up signs, cleaning up the area, and a temporary fence around the bridge at Security Court.

Debbie Peterson suggested reaching out to the 5 Cities Homeless Coalition to assist in finding a solution to the vagrant issue.

April McLaughlin asked when the Knudson Report would be presented.

Chairman Shoals asked legal counsel to look into the appointment of an Alternate to a Board position such as Vice Chairman. His motion at the December 16, 2015 meeting was to elect Director Guerrero as Vice Chairman of the SSLOCSD Board.

There being no more public comment, Chairman Shoals closed the public comment period.

**3. CONSENT AGENDA**

**3A. Review and Approval of the Minutes of the December 16, 2015 Meeting**

**3B. Review and Approval of Warrants**

Chairman Shoals opened the public comment period.

Julie Tacker has concerns regarding the Bartle Wells Rate Study, the Downey Brand warrant, and the Michael K. Nunley warrant.

There being no more public comment, Chairman Shoals closed the public comment period.

**Motion:** Director Guerrero made a motion to approve the Consent Agenda.

**Action:** The Consent Agenda was approved unanimously as presented by roll call vote.

#### **4. PLANT SUPERINTENDENT'S REPORT**

Plant Superintendent Clemons presented the Plant Superintendent's Report which showed that the TSS results are a little high, but consistent with values from this same time last year. All other process values are well within limits.

Mr. Clemons also spoke about the maintenance, safety and training, and projects being done by Staff at the Plant.

Director Guerrero presented Mr. Clemons a handout with questions regarding the Reclamation Study meeting that was attended by Paavo Ogren at the plant on January 6.

Chairman Shoals opened the public comment period.

Julie Tacker, Patricia Price, and Patty Welsh all gave public comment on the Redundancy Project.

There being no more public comment, Chairman Shoals closed the public comment period.

**Action:** The Board received and filed the Plant Superintendent's report.

Director Guerrero asked for a report on the condition of the FFR.

#### **5. BOARD ACTION ON INDIVIDUAL ITEMS:**

##### **5A. APPOINTMENT OF JOHN CLEMONS AS THE DISTRICT'S REPRESENTATIVE TO SAN LUIS OBISPO COUNTY FLOOD CONTROL AND WATER CONSERVATION DISTRICT ZONE 1/1A, ADVISORY COMMITTEE**

Staff recommended that the Board appoint John Clemons as the District's representative to the San Luis Obispo County Flood Control and Water Conservation District Zone 1/1A, Advisory Committee.

Chairman Shoals opened the public comment period.

There being no more public comment, Chairman Shoals closed the public comment period.

**Motion:** Director Hill made a motion to approve staff recommendation.

**Action:** Motion approved unanimously by roll call vote.

**5B. CONTRACT WITH MICHAEL K. NUNLEY AND ASSOCIATES, INC.  
FOR GENERAL ENGINEERING SERVICES**

Staff recommended that the Board of Directors adopt **Resolution 2016-339**, authorizing and directing the Interim District Administrator to execute a contract with Michael K. Nunley and Associates, Inc., for general engineering services, in an amount not to exceed \$100,000.

Michael Nunley was present and answered all questions. He handed out his billing schedule which will be added to the contract which has been approved by legal counsel.

Chairman Shoals opened the public comment period.

Julie Tacker and Patty Welsh gave public comment.

Mr. Nunley said that task orders are set up separately. All work has been done under the Purchasing Policy. Everything has been defined with a scope schedule and a budget.

Director Hill and Director Guerrero are sensitive to sole sourcing and would recommend having other firms bid.

There being no more public comment, Chairman Shoals closed the public comment period.

Mr. Clemons let the Board know that anything over the Purchasing Policy would still be brought to the Board. The internal controls are in place to be fiscally responsible.

**Motion:** Director Hill made a motion to authorize staff recommendation with the inclusion of the fee schedule that was presented tonight.

**Action:** Motion approved 2-1 by roll call vote.

Shoals- Yes

Guerrero- No

Hill- Yes

**5C. CONTRACT WITH JOHN RICKENBACH FOR REDUNDANCY  
PROJECT PERMITTING**

Staff recommended that the Board of Directors adopt **Resolution 2016-337**, a Resolution authorizing and directing the Interim District Administrator to enter into an agreement with John F. Rickenbach Consulting for permitting, environmental review, and regulatory coordination services for the redundancy project, in an amount not to exceed \$32,000.

John Rickenbach was present and answered all questions.

Chairman Shoals opened the public comment period.

Julie Tacker has concerns about sole sourcing.

Debbie Peterson suggested that the CAD drawings be included in the work product so that they will stay with the District files.

There being no more public comment, Chairman Shoals closed the public comment period.

The Board members all announced that they are sensitive to sole sourcing. They do believe that this is a project that needs to be expedited and to move forward with the project.

Legal counsel clarified that Professional Service contracts can be sole sourced to professionals based on qualifications. It is within the purchasing guidelines and in compliance with any other controls you would like to see. He recommended that in the long term staff should look into the purchasing policies for bidding and informal bidding.

**Motion:** Vice Chairman Guerrero made a motion to approve staff recommendation. It was seconded by Director Hill for discussion purposes.

**Action:** Motion approved unanimously by roll call vote.

The Board gave direction to follow up with legal counsel's recommendation for a purchasing policy for bidding.

#### **5D. REDUNDANCY PROJECT PERMITTING UPDATE**

The Board of Directors received an update from Mike Nunley and John Rickenbach on the status of the permitting process for the Redundancy Project.

Chairman Shoals opened the public comment period.

There being no more public comment, Chairman Shoals closed the public comment period.

**Action:** Received and Filed.

#### **5E. CONTRACT WITH GRAY ELECTRICAL CONSULTING AND ENGINEERING, LLC FOR PRELIMINARY DESIGN OF MECHANICAL BAR SCREEN ELECTRICAL/INSTRUMENTATION SYSTEM**

Staff asked that this item be removed from the agenda.

There being public comment, Chairman Shoals closed the public comment period.

**Action:** This item was removed from the agenda.

#### **6. MISCELLANEOUS ITEMS**

##### **A. Miscellaneous Oral Communications**

The Board asked staff to review the minutes October 21, 2015 when the Prop 218 process was approved.

The Knudson Report should be available in the next 2-4 weeks.

Patty Welsh asked if Knudson was going to ask for more money.

**B. Miscellaneous Written Communications**

The District received a letter from the City of Grover Beach announcing John Shoals as Director and Barbara Nicolls as Alternate for the SSLOCSD Board.

**7. VERBAL REPORT BY INTERIM DISTRICT ADMINISTRATOR**

Acting District Administrator Clemons announced the following items will be on future agendas:

- January 20<sup>th</sup> will have the 2014/2015 Audit.
- February 3<sup>rd</sup> will have the 6 month Financial Report
- February 17<sup>th</sup> will be the protest hearing for Prop 218.
- Annual Yearly Report to State Water Resource Quality Control Board will be presented at the February 3, 2016 meeting.
- Bylaws will be presented in February
- RFP for Grit Removal System will be before the Board soon.

Chairman Shoals asked for clarification on the Prop 218 process. Vice Chairman Guerrero asked who would be reviewing the applications for the District Administrator position. He also asked for a report on what is going on with the FFR.

**8. ADJOURNMENT**

There being no further business to come before the Board, Chairman Shoals adjourned the meeting at approximately 8:00p.m.

***THESE MINUTES ARE DRAFT AND NOT OFFICIAL UNTIL APPROVED BY THE BOARD OF DIRECTORS AT A SUBSEQUENT MEETING.***



SOUTH SAN LUIS OBISPO COUNTY SANITATION DISTRICT  
WARRANT REGISTER  
01/20/2016 FY 2015/16

VENDOR	BUDGET LINE ITEM	REFERENCE	WARRANT NO.	ACCT	ACCT BRKDN	TOTAL
ABALONE COAST ANALYTICAL, INC	CHEMICAL ANALYSIS	2703	012016-9979	7078	115.00	115.00
AGP VIDEO	RECORDING OF B.O.D. MEETINGS	6422	80	7080	650.00	650.00
ALLIED ADMINISTRATORS	DENTAL	FEBRUARY	81	6025	862.26	862.26
ALLSTAR INDUSTRIAL SUPPLY	SAFETY SUPPLY'S	1574	82	8056	210.70	210.70
ARAMARK	UNIFORMS	01/01/16; 01/08/16; 01/15/16	83	7025	644.00	644.00
BANK OF THE WEST	PROFESSIONAL SERVICES OTHER	COUNTY APN #'S	84	7079	827.60	1,815.95
	SAFETY SUPPLY'S			8056	849.44	
	OFFICE SUPPLY'S			8045	138.91	
BRENNTAG	PLANT CHEMICALS	BPI589237; BPI587927	85	8050	9,730.09	9,730.09
CALCOAST REGRIGERATION	EQUIPMENT MAINTENANCE	161253	86	8030	224.13	224.13
CALPERS	UNFUNDED ACCRUED LIABILITY	14683260	87	6060	2,291.00	2,291.00
CARQUEST	AUTOMOTIVE	7314-823919	88	8032	170.78	170.78
CENTRAL COAST BACKFLOW SERVICE	EQUIPMENT MAINTENANCE	1738	89	8030	50.00	50.00
CCWT	LAB SUPPLY'S	32292; 32070	90	8040	241.50	241.50
ENGEL & GRAY, INC.	SOLIDS HANDLING	76564	91	7085	2,265.92	2,265.92
FED EX	CHEMICAL ANALYSIS	5-275-08698; 5-281-56362	92	7078	36.94	36.94
FLUID RESOURCE MANAGEMENT	TRUNK/SEWER MAINTENANCE	W13580	93	8015	877.50	877.50
GARING TAYLOR & ASSOC.	ENGINEERING	13431	94	7077	543.75	570.00
	AG SEWER BRIDGE	13430		26-8065	26.25	
GILBERT A. TRUJILLO, ESQ.	DISTRICT LEGAL	DECEMBER	95	7071	6,510.00	6,510.00
HD SUPPLY	SAFETY SUPPLY'S	10004593902	96	8056	46.94	46.94
II SUPPLY	EQUIPMENT MAINTENANCE	35358	97	8030	185.37	185.37
JB DEWAR	FUEL	86240	98	8020	131.45	131.45
KEVIN MERK ASSOCIATES, INC	PIPE SEWER BRIDGE	15-1119	99	26-8065	2,980.00	2,980.00
KNUDSON	MANAGEMENT REVIEW	Final of Budgeted Amount	1000	7090	6,984.10	6,984.10
MICHAEL K. NUNLEY & ASSOC.	GRIT REMOVAL IMPROVEMENT	2015-001; Task 200	01	20-8010	881.25	10,096.34
	HEADWORKS CONSTRUCTION DOCS	2015-002; Task 002		26-8065	3,586.25	
	HEADWORKS IMPROVEMENTS	2015-002; Task 001		26-8065	5,628.84	
MINERS	SAFETY SUPPLY'S	DECEMBER	02	8056	32.39	231.44
	EQUIPMENT MAINTENANCE			8030	199.05	
OVIVO	STRUCTURES/GROUNDS REPLACE.	8467550	03	20-8065	1,538.98	1,538.98
POLYDYNE, INC.	PLANT CHEMICALS	1016580	04	8050	5,835.10	5,835.10
RAIN FOR RENT	EQUIPMENT RENTAL	031058876	05	7032	3,961.17	3,961.17
READY REFRESH	HOUSEHOLD EXPENSE	15L0012917373	06	8035	214.07	214.07
SHIPSEY & SEITZ, INC.	OUTSIDE LEGAL	GENERAL LEGAL	07	7070	80.00	1,052.00
	LITIGATION			7070	972.00	
SLOCO DATA	PROFESSIONAL SERVICES OTHER	218 MAILING	08	7079	1,475.00	1,475.00
SPRINT	COMMUNICATIONS	DECEMBER	09	7014	141.12	141.12
STANLEY SECURITY	ALARMS	FEBRUARY	10	7011	62.20	62.20
STATE FUND	WORK COMP	ADJUSTED PREMIUM 14/15	11	6080	6,149.34	10,903.51
		JANUARY		6080	4,754.17	
UNITED RENTALS	SAFETY SUPPLY'S	134200073-001	12	8056	79.02	79.02
USA BLUEBOOK	EQUIPMENT MAINTENANCE	83617	13	8030	227.66	227.66
VWR	LAB SUPPLY'S	MULITPLE	14	8040	563.76	2,093.21
	CAPTIAL EQUIPMENT	8043522301		8010	1,529.45	
WENDY STOCKTON, ESQ.	DISTRICT LEGAL	DECEMBER	15	7071	8,330.00	8,330.00
<b>SUB TOTAL</b>					<b>\$ 83,834.45</b>	<b>\$ 83,834.45</b>
<b>GRAND TOTAL</b>					<b>\$ 83,834.45</b>	<b>\$ 83,834.45</b>

We hereby certify that the demands numbered serially from 012016-9979 to 012016-1015 together with the supporting evidence have been examined, and that they comply with the requirements of the SOUTH SAN LUIS OBISPO COUNTY SANITATION DISTRICT. The demands are hereby approved by motion of the SOUTH SAN LUIS OBISPO COUNTY SANITATION DISTRICT, together with warrants authorizing and ordering the issuance of checks numbered identically with the particular demands and warrants.

BOARD OF DIRECTORS:

DATE: \_\_\_\_\_

\_\_\_\_\_  
Chairman\_\_\_\_\_  
Board Member\_\_\_\_\_  
Board Member\_\_\_\_\_  
Secretary



## SOUTH SAN LUIS OBISPO COUNTY SANITATION DISTRICT

1600 Aloha Oceano, California 93445-9735  
Telephone (805) 489-6666 FAX (805) 489-2765

Date: January 15, 2016

To: SSLOCSD Board of Directors

From: John Clemons, District Superintendent

Subject: **Superintendent's Report**

### Operations

**Chart 1 – Plant Data**

January 2016*	INF Flow MGD	Peak Flow MGD	INF BOD mg/L	EFF BOD mg/L	INF TSS mg/L	EFF TSS mg/L	Fecal Coli	Cl2 lbs/day	BOD REM Eff. %
Average	2.14	3.3	441	34	406	34	2.98	243	92.5
High	2.34	4.0	460	37	428	40	7.8	520	
Limit	5.0			40/60/90		40/60/90	2000		80
CY 2014 Monthly									
Average	2.35	3.8	392	26	430	31	87	188	93.4
High	2.70	4.8	444	34	470	39	1600	250	

- \* = Plant data through January 15th.

Limit – 40/60/90 represent NPDES Permit limits for the monthly average, weekly average, and instantaneous value for plant effluent BOD and TSS.

### Maintenance

- Worked on boiler condensate lines and probe.
- Cleaned digester methane gas valves.
- Replaced broken fitting on reclaimed water strainer basket at FFR.
- Cleared clogged drain line on #2 digester.
- Inspected Plant backflow prevention device.

- Cleared clogged drain in sludge bed #10.
- Posted “Private Property Signs” along District property boundaries at the footpath on Aloha Pl.
- Work Orders.

#### **In-Progress**

- Garing, Taylor, and Associates is working with staff to review and ensure the integrity of the District’s **A.G. Sewer Bridge**.
- Staff is working with MKN and Associates Engineers to prepare a **grit removal system RFP**.
- Staff is preparing an RFP for installation of a **mechanical bar screen** in the headworks.
- **Secondary Process Redundancy Project** – Permitting update. RFQ update.
- **Satellite Water Resource Recovery Facilities** Planning Feasibility Study – Update on meeting with other regional agencies.
- Staff is conferring with PG&E representatives regarding possible **energy conservation projects**.
- Staff is preparing a **short-term emergency back-up plan** in case of a FFR failure.

#### **Training**

- Staff attended in-house safety training on Disaster Preparedness.
- Staff attended a training session on Plant familiarization.

Best regards,

John Clemons  
Superintendent



# **SOUTH SAN LUIS OBISPO COUNTY SANITATION DISTRICT**

Post Office Box 339 Oceano, California 93475-0339

1600 Aloha Oceano, California 93445-9735

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## **Staff Report**

To: Board of Directors  
From: John Clemons, Interim District Administrator  
Date: January 20, 2016

### **SUBJECT: APPROVAL OF 2015 AUDIT**

#### **RECOMMENDATION:**

That the Board approve the 2015 Audit.

#### **BACKGROUND**

At the meeting of July 01, 2015, the Board approved retaining Moss, Levy & Hartzheim, LLP to perform the annual audit for the District. The auditors reviewed District financial statements and records and met with District staff to develop the Audit Report.

#### **DISCUSSION:**

South San Luis Obispo County Sanitation District realized an overall increase of cash and cash equivalents of \$968,159 from the previous year. However, the District realized a decrease in net position of \$207,839 from the previous year. The decrease in net position can be attributed to factors such as depreciation and net pension liability (a new line item).

The District realized a net operating increase of \$42,352. When compared to FYE 2014(-\$621,441) and FYE 2013(-\$1,322,049), a steady pattern of improvement can be seen.

Total cash balance at the end of FYE was \$5,554,693. Of that balance, 4.1 million is restricted for Plant Expansion projects. One should bear in mind that the District did experience a decrease in net position of -\$207,839 for FYE 2015 when including depreciation losses and liabilities.

Overall, the South San Luis Obispo Sanitation District has improved on its fiscal performance this period when compared to prior years. Cash balance increase significantly. Losses and expenditures are less than in prior years.

Internal controls and administrative efficiency appear to be improving also. There was only one finding for FYE 2015. The finding was two timecards that were not signed by the manager. There were three findings in FYE 2014, and seven findings for FYE 2013.

John Clemons, III  
Interim District Administrator

Attachment: 2015 Audit

**SOUTH SAN LUIS OBISPO COUNTY  
SANITATION DISTRICT**

**FINANCIAL STATEMENTS**  
June 30, 2015

**SOUTH SAN LUIS OBISPO COUNTY SANITATION DISTRICT**  
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June 30, 2015

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
South San Luis Obispo County Sanitation District  
Oceano, California

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the South San Luis Obispo County Sanitation District (District) as of and for the fiscal year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the South San Luis Obispo County Sanitation District, as of June 30, 2015, and the respective changes in financial position and cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

As discussed in note 2 to the basic financial statements effective July 1, 2013, the South San Luis Obispo County Sanitation District adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 4, the schedule of Proportionate Share of Net Pension Liability on page 21, and the schedule of Contributions on page 22 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, of the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 11, 2016, on our consideration of the South San Luis Obispo County Sanitation District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

*Moss, Remy & Haugheim LLP*

Santa Maria, CA  
January 11, 2016



**SOUTH SAN LUIS OBISPO COUNTY SANITATION DISTRICT**  
POST OFFICE BOX 339  
1600 ALOHA PLACE  
OCEANO, CA 93475

Management's Discussion and Analysis  
Fiscal Year Ending June 30, 2015

The following is a discussion of the consolidated financial condition and the results of operations of the South San Luis Obispo County Sanitation District (the District) for the fiscal year ending June 30, 2015. This discussion refers to and is qualified by information contained in the financial statements and in the notes to the financial statements. Thus, it should be read together with these statements in the Audit Report. The financial audit of the South San Luis Obispo County Sanitation District has been performed by Moss, Levy & Hartzheim, CPAs, in accordance with U.S. generally accepted auditing standards.

**Overall Performance**

South San Luis Obispo Sanitation District realized an overall increase of cash and cash equivalents of \$968,159. However, the District realized a decrease in Net Position of \$207,839 from the previous year. This decrease can be mainly attributed to a loss on disposal of assets of \$494,844 for FYE 2015. Another contributor to the overall decrease in net assets is the addition of a new line item in the "long term liability" section of this financial statement. The new item is "Net pension liability". This item shows an additional liability of \$556,113 when compared to last years, financial statement. The District realized a net operating income of \$42,352 in FYE 2015. This is a marked improvement from the net operating loss of \$621,441 in FYE 2014, and a net operating loss of \$1,322,049 in FYE 2013.

Total District Operating Revenues for FYE 2015 were \$3,398,643. This is an increase of \$253,329 when compared to the previous year. The increase is due primarily to an increase in brine disposal service request.

Total District Operating expenses showed a decrease of \$410,464 from the previous year. With the exclusion of depreciation expense, operating expenses were \$2,481,913 in FYE 2015. This is slightly higher than the operating expense of \$2,415,261 in FYE 2014. Overall spending has been very consistent over the past two years.

**Business-Type Activities**

Wastewater Treatment is the primary business-type activity of the South San Luis Obispo County Sanitation District. The Operating Fund provides for revenues and expenses and is a self-supporting fund.

Comparative Revenue from Sewer Service Fees  
Fiscal Year Ending 2013 – 2015

	FYE 2013	FYE 2014	FYE 2015
Sewer Service Fees	\$3,071,262	\$3,145,314	\$3,398,643

**Comparative Total Operating Expenses**

FYE 2013	FYE 2014	FYE 2015
\$4,393,311	\$3,766,755	\$3,356,291

**Summary**

The South San Luis Obispo Sanitation District has improved its fiscal performance this fiscal period. The change in net assets for FYE 2015 was a negative \$207,839, as compared to a negative \$460,183 in FYE 2014. That is an improvement of over 50% in net asset change. The District did realize a total cash increase of \$968,159 in its cash and cash equivalents when compared to FYE 2014. This continues a trend of positive gains in District cash and cash equivalents over the past few years. The District continues to improve its cash balance standing to prepare for upcoming Capital Improvements Projects. The cash balance at the end of FYE 2015 is \$5,554,693. One should bear in mind however, that this District did experience a net operating loss of \$207,839 for FYE 2015 when including depreciation losses. While cash balance has increased significantly, the District's net assets have decreased.

**SOUTH SAN LUIS OBISPO COUNTY SANITATION DISTRICT**  
**STATEMENT OF NET POSITION - PROPRIETARY FUND**  
June 30, 2015

**ASSETS**

Current Assets:

Cash and investments	\$ 5,554,693
Accounts receivable	505,716
Prepaid expenses	<u>28,090</u>
Total current assets	<u>6,088,499</u>

Noncurrent Assets:

Deposits	10,992
Capital assets	
Land	431,425
Construction in progress	102,787
Property, plant & equipment	22,387,764
Accumulated depreciation	<u>(14,777,416)</u>
Total noncurrent assets	<u>8,155,552</u>

Total assets	<u>14,244,051</u>
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**Deferred Outflows of Resources**

Deferred pensions	<u>51,868</u>
Total deferred outflows of resources	<u>51,868</u>

**LIABILITIES**

Current Liabilities:

Accounts payable	133,352
Accrued liabilities	31,801
Accrued interest payable	4,009
Settlement payable	1,109,813
Loan payable, current portion	<u>64,867</u>
Total current liabilities	<u>1,343,842</u>

Long-Term Liabilities:

Loan payable, less current portion	140,270
Compensated absences	52,330
Net pension liability	556,113
Other post employment benefits	<u>731,192</u>
Total long term liabilities	<u>1,479,905</u>

Total liabilities	<u>2,823,747</u>
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**Deferred Inflows of Resources**

Deferred pensions	<u>198,116</u>
Total deferred inflows of resources	<u>198,116</u>

**NET POSITION**

Net investment in capital assets	7,939,423
Restricted for capital expansion	4,113,230
Unrestricted	<u>(778,597)</u>
Total net position	<u>\$ 11,274,056</u>

The notes to basic financial statements are an integral part of this statement.

**SOUTH SAN LUIS OBISPO COUNTY SANITATION DISTRICT**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION -**  
**PROPRIETARY FUND**  
For the Fiscal Year Ended June 30, 2015

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**Operating Revenues:**

Sewer services fees	\$ 3,398,643
Total operating revenues	<u>3,398,643</u>

**Operating Expenses:**

Gross wages	630,374
Payroll taxes and benefits	50,476
Employee benefits	313,348
Retirement contribution	53,878
OPEB expense	119,959
Uniforms	14,007
Repairs and maintenance	315,516
Equipment rental	5,444
Insurance	28,550
Depreciation	874,378
Communications	11,724
Utilities	190,141
Property tax	21,674
Special services	192,295
Office and supplies	12,380
Fuel and oil	9,358
Membership, permits, and license fees	70,194
Legal	131,828
Accounting	13,584
Plant chemicals, lab, and analysis	210,228
Environmental regulation fees	18,408
Solids handling	52,251
Small tools	16,296
Total operating expenses	<u>3,356,291</u>

Net operating income	<u>42,352</u>
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**Non-Operating Revenues (Expenses):**

Governmental agencies	6,134
Loss on disposal of assets	(494,844)
Interest income	15,041
Lease income	28,145
Interest expense	(12,002)
Total non-operating revenues (expenses)	<u>(457,526)</u>

**Capital Contributions:**

Connection fees	<u>207,335</u>
Change in net position	<u>(207,839)</u>

**Net Position:**

Net position, beginning of fiscal year	13,068,224
Prior period adjustment	(1,586,329)
Net position, beginning of fiscal year- restated	<u>11,481,895</u>
Net position, end of fiscal year	<u>\$ 11,274,056</u>

The notes to basic financial statements are an integral part of this statement.

**SOUTH SAN LUIS OBISPO COUNTY SANITATION DISTRICT**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUND**  
For the Fiscal Year Ended June 30, 2015

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**CASH FLOWS FROM OPERATING ACTIVITIES**

Receipts from customers	\$ 3,301,030
Payments to vendors	(1,793,616)
Payments to employees	<u>(518,601)</u>
Net cash provided by operating activities	<u>988,813</u>

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

Cash received from other governmental agencies	6,134
Lease income	<u>28,145</u>
Net cash provided by noncapital financing activities	<u>34,279</u>

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES**

Capital contributions	207,335
Acquisition and construction of capital assets	(202,514)
Payments of capital debt	(61,591)
Interest paid on capital debt	<u>(13,204)</u>
Net cash used by capital and related financing activities	<u>(69,974)</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Interest received	<u>15,041</u>
Net cash provided by investing activities	<u>15,041</u>

Net change in cash and cash equivalents	968,159
Cash and cash equivalents, July 1, 2014	<u>4,586,534</u>
Cash and cash equivalents, June 30, 2015	<u><u>\$ 5,554,693</u></u>

The notes to basic financial statements are an integral part of this statement.

**SOUTH SAN LUIS OBISPO COUNTY SANITATION DISTRICT**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUND (Continued)**  
For the Fiscal Year Ended June 30, 2015

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**Reconciliation of operating income to net cash provided**

**by operating activities:**

Operating income	\$ 42,352
Adjustments to reconcile operating income to net cash used by operating activities:	
Depreciation	874,378
Change in assets, deferred outflows, liabilities, and deferred inflows:	
Accounts receivable	(102,989)
Prepaid expenses	9,073
Deposits	(3,697)
Deferred outflows of resources	(1,490)
Accounts payable	57,923
Accrued liabilities	7,582
Compensated absences	3,083
OPEB liability	119,959
Net pension liability	(215,477)
Deferred inflows of resources	<u>198,116</u>
Net cash provided by operating activities	<u><u>\$ 988,813</u></u>

**NOTE 1 - REPORTING ENTITY**

The reporting entity is the South San Luis Obispo County Sanitation District. The District is responsible for trunk main and sewer pipes from the Cities of Arroyo Grande, Grover Beach, and the Oceano Community Services District. The District is governed by a three-member body, known as the District Board, who are appointed by the respective member agencies on a yearly basis. The District Board includes one representative from each of its Member Agencies, specifically, the City of Arroyo Grande, City of Grover Beach and the Oceano Community Services District. The District provides wastewater disposal services.

There are no component units included in this report which meet the criteria of Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statements No. 39 and No. 61.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

- A. Accounting Policies - The accounting policies of the District conform to accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board and the American Institute of Certified Public Accountants.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are generally followed in the proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The District has elected not to follow subsequent private-sector guidance.

- B. Accounting Method - The District is organized as an Enterprise Fund and follows the accrual method of accounting, whereby revenues are recorded as earned, and expenses are recorded when incurred.

- C. Fund Financial Statements – The fund financial statements provide information about the District’s proprietary fund.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

- D. Proprietary Fund Type

**Enterprise Fund**

Enterprise fund is used to account for operations (a) that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

- E. Cash and Cash Equivalents - For purposes of the statement of cash flows, cash and cash equivalents include restricted and unrestricted cash and restricted and unrestricted certificates of deposit with original maturities of three months or less.
- F. Property, Plant, and Equipment – Capital assets purchased by the District are recorded at cost. Contributed or donated capital assets are recorded at fair value when acquired.
- G. Depreciation – Capital assets owned by the District are depreciated over their estimated useful lives (ranging from 5-40 years) under the straight-line method of depreciation.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

- H. Receivables - The District did not experience bad debt losses; accordingly, no adjustment has been made for doubtful accounts, and accounts receivable is shown at the adjusted value.
- I. Encumbrances - Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation, is not utilized by the District.
- J. Compensated Absences - Accumulated unpaid employee vacation and sick leave benefits are recognized as liabilities of the District. The amounts are included in current liabilities.
- K. Restricted Assets – Restricted assets are financial resources segregated for a special purpose such as construction of improvements and financing of debt obligations. These assets are for the benefit of a distinct group and as such are legally or contractually restricted.
- L. Use of Estimates  
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, as prescribed by the GASB and the AICPA, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.
- M. Net Position  
GASB Statement No. 63, requires that the difference between assets added to the deferred outflows of resources and liabilities be added to the deferred inflows of resources be reported as net position. Net position is classified as either net investment in capital assets, restricted, or unrestricted.  
  
Net position that is net investment in capital assets consist of capital assets, net of accumulated depreciation, and reduced by the outstanding principal of related debt. Restricted net position is the portion of net position that has external constraints placed on them by creditors, grantors, contributors, laws, or regulations of other governments, or through constitutional provisions, or enabling legislation. Unrestricted net position consists of net position that does not meet the definition of net investment in capital assets or restricted net position.
- N. Pensions  
For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the South San Luis Obispo County Sanitation District's Public Employee's Retirement System (CalPERS) plan (Plan) and additions to/deductions from the Plan fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.
- O. Deferred Outflows and Inflows of Resources  
Pursuant to GASB Statement No. 63, "*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*," and GASB Statement No. 65, "*Items Previously Reported as Assets and Liabilities*," the District recognizes deferred outflows and inflows of resources.  
  
In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. A deferred outflow of resources is defined as a consumption of net position by the government that is applicable to a future reporting period. The District has one item which qualifies for reporting in this category; refer to Note 7 for a detailed listing of the deferred outflows of resources the District has reported.



**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

O. Deferred Outflows and Inflows of Resources (Continued)

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. A deferred inflow of resources is defined as an acquisition of net position by the District that is applicable to a future reporting period. The District has one item which qualifies for reporting in this category; refer to Note 7 for a detailed listing of the deferred inflows of resources the District has reported.

P. New Accounting Pronouncements

Governmental Accounting Standards Board Statement No. 68

For the fiscal year ended June 30, 2015, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 68, "Accounting and Financial Reporting for Pensions." This Statement is effective for periods beginning after June 15, 2014. The objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. This Statement replaces the requirements of GASB Statement No. 27, "Accounting for Pensions by State and Local Governmental Employers" as well as the requirements of GASB Statement No. 50, "Pension Disclosures." This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses related to pensions. Implementation of the GASB Statement No. 68 and the impact on the District's financial statements are explained in Note 7 - Pension Plans and Note 11 - Prior Period Adjustment.

Governmental Accounting Standards Board Statement No. 71

For the fiscal year ended June 30, 2015, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date." This Statement is effective for periods beginning after June 15, 2014. The objective of this Statement is to address an issue regarding application of the transition of GASB Statement No. 68, "Accounting and Financial Reporting for Pensions." The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. This statement will eliminate the source of potential significant understatement of restated beginning net position and expense in the first year of implementation of GASB Statement No. 68 in the accrual-basis financial statements of employers and nonemployer contributing entities. Implementation of the GASB Statement No. 71 and the impact on the District's financial statements are explained in Note 7 - Pension Plans and Note 11 - Prior Period Adjustment.

**NOTE 3 - CASH AND INVESTMENTS**

Investments are carried at fair value in accordance with GASB Statement No. 31. On June 30, 2015 the District had the following cash and investments on hand:

Cash on hand	\$	9,038
Cash in Bank		46,219
Cash and investments with County Treasurer		3,088,606
Local Agency Investment Fund (LAIF)		<u>2,410,830</u>
Total cash and investment	\$	<u><u>5,554,693</u></u>

**SOUTH SAN LUIS OBISPO COUNTY SANITATION DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
June 30, 2015

**NOTE 3 - CASH AND INVESTMENTS (Continued)**

Investments Authorized by the California Government Code

The table below identifies the investment types that are authorized for the District by the California Government Code. The table also identifies certain provisions of the California Government Code that address interest rate risk, credit risk, and concentration of credit risk.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
Federal Agency Securities	N/A	None	None
Bankers' Acceptances	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase and Reverse Repurchase Agreements	92 days	20% of base value	None
Medium-Term Notes	5 years	30%	None
Mutual Funds	5 years	15%	10%
Money Market Mutual Funds	N/A	None	None
Mortgage Pass-Through Securities	N/A	20%	None
County Pooled Investment Fund	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
State Registered Warrants, Notes, or Bonds	5 years	None	None
Notes and Bonds of other Local California Agencies	5 years	None	None

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the District manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity:

<u>Investment Type</u>	<u>Carrying Amount</u>	<u>Remaining Maturity (in Months)</u>			
		<u>12 Months or Less</u>	<u>13 - 24 Months</u>	<u>25 - 60 Months</u>	<u>More than 60 Months</u>
San Luis Obispo Investment Pool	\$ 3,088,606	\$ 3,088,606	\$ -	\$ -	\$ -
State Investment Pool (LAIF)	2,410,830	2,410,830			
	<u>\$ 5,499,436</u>	<u>\$ 5,499,436</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**NOTE 3 - CASH AND INVESTMENTS (Continued)**

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code and the District's investment policy, and the actual rating as of fiscal year end for each investment type.

Investment Type	Carrying Amount	Minimum Legal Rating	Rating as of Fiscal Year End			
			AAA	Aa	Baa	Not Rated
San Luis Obispo Investment Pool	\$ 3,088,606	N/A	\$ -	\$ -	\$ -	\$ 3,088,606
State Investment Pool (LAIF)	2,410,830	N/A				2,410,830
	<u>\$ 5,499,436</u>		<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,499,436</u>

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. There are no investments in any one issuer that represent 5% or more of total District investments.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The fair value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure the District's deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

As of June 30, 2015, none of the District's deposits with financial institutions in excess of federal depository insurance limits were held in uncollateralized accounts.

Investment in State Pool (LAIF)

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

**SOUTH SAN LUIS OBISPO COUNTY SANITATION DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
June 30, 2015

**NOTE 4 - SCHEDULE OF CAPITAL ASSETS**

A schedule of changes in capital assets and depreciation for the fiscal year ended June 30, 2015, is shown below:

	Balance July 1, 2014	Additions	Deletions	Prior Period Adjustment	Balance June 30, 2015
Land	\$ 431,425	\$ -	\$ -	\$ -	\$ 431,425
Construction in Progress	541,691	55,940	(494,844)		102,787
Property, Plant, & Equipment	26,668,462	146,574	(27,668)	(4,399,604)	22,387,764
Total capital assets	27,641,578	202,514	(522,512)	(4,399,604)	22,921,976
Less Accumulated Depreciation	(17,465,192)	(874,378)	27,668	3,534,486	(14,777,416)
Net capital assets	<u>\$ 10,176,386</u>	<u>\$ (671,864)</u>	<u>\$ (494,844)</u>	<u>\$ (865,118)</u>	<u>\$ 8,144,560</u>

**NOTE 5 – LOAN PAYABLE**

On October 19, 2009, the District received a loan from Municipal Finance Corporation in the amount of \$483,159. The purpose of the loan was to install a new electrical generator system. The District will make semi-annual payments under the loan agreement of \$37,398 through August 16, 2017. The interest rate for the loan is 5.25%. Future debt service payments are as follows:

Fiscal Year Ended June 30	Principal	Interest	Total
2016	\$ 64,867	\$ 9,930	\$ 74,797
2017	68,318	6,479	74,797
2018	71,952	2,845	74,797
	<u>\$ 205,137</u>	<u>\$ 19,254</u>	<u>\$ 224,391</u>

**NOTE 6 – LONG-TERM DEBT**

The changes in long-term debt at June 30, 2015, are as follows:

	Balance July 1, 2014	Additions	Retirements	Prior Period Adjustment	Balance June 30, 2015	Due within One year
Compensated Absences	\$ 49,247	\$ 28,830	\$ (25,747)	\$	\$ 52,330	\$ -
Loan Payable	266,728		(61,591)		205,137	64,867
OPEB	611,233	155,233	(35,274)		731,192	
Net Pension Liability		322,293	(537,770)	771,590	556,113	
Total	<u>\$ 927,208</u>	<u>\$ 506,356</u>	<u>\$ (660,382)</u>	<u>\$ 771,590</u>	<u>\$ 1,544,772</u>	<u>\$ 64,867</u>

**NOTE 7 – DEFINED BENEFIT PENSION PLAN**

**A. General Information about the Pension Plans**

*Plan Descriptions*

All qualified permanent and probationary employees are eligible to participate in the District's Miscellaneous Employee Pension Plans, cost-sharing multiple employer defined benefit plans administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plans are established by State statute and District resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

*Benefits Provided*

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for nonduty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The Plans' provisions and benefits in effect at June 30, 2015, are summarized as follows:

	Miscellaneous	
	Prior to January 1, 2013	On or after January 1, 2013
Hire Date		
Benefit formula	2.0% @ 60	2% @ 62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50-63	52-67
Monthly benefits, as a % of eligible compensation	1.09% to 2.42%	1.0% to 2.5%
Required employee contribution rates	7.00%	7.00%
Required employer contribution rates	13.187%	6.800%

*Contributions*

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plan is determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. Contributions to the pension plan from the District were \$50,379 for the fiscal year ended June 30, 2015.

**NOTE 7 – DEFINED BENEFIT PENSION PLAN (Continued)**

**B. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions**

At June 30, 2015, the District reported a liability of \$556,113 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all Pension Plan participants, actuarially determined. At June 30, 2014, the District's proportion was 0.02250%, which decreased by 0.00105% from June 30, 2013.

For the year ended June 30, 2015, the District recognized pension expense of \$29,572. Pension expense represents the change in the net pension liability during the measurement period, adjusted for actual contributions and the deferred recognition of changes in investment gain/loss, actuarial gain/loss, actuarial assumptions or method, and plan benefits. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 48,422	\$ -
Differences between expected and actual experience		
Changes in assumptions		
Net difference between projected and actual earnings on retirement plan investments		196,215
Adjustment due to differences in proportions	3,446	1,901
	<u>\$ 51,868</u>	<u>\$ 198,116</u>

\$48,442 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in the pension expenses as follows:

Fiscal Year Ended June 30	Amount
2016	\$ (48,502)
2017	(48,502)
2018	(48,613)
2019	(49,053)

**NOTE 7 – DEFINED BENEFIT PENSION PLAN (Continued)**

**B. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)**

*Actuarial Assumptions*

The total pension liability in the June 30, 2013 actuarial valuation was determined using the following actuarial assumptions:

	Miscellaneous
Valuation Date	June 30, 2013
Measurement Date	June 30, 2014
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.50%
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Investment Rate of Return	7.5% Net of Pension Plan Investment and Administrative Expenses; includes Inflation
Mortality Rate Table (1)	Derived using CalPERS' Membership Data for all Funds
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

- (1) The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table please refer to the 2014 experience study report.

*Discount Rate*

The discount rate used to measure the total pension liability was 7.50%. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.50 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.50 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50 percent investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65 percent. Using this lower discount rate has resulted in a slightly high Total Pension Liability and Net Pension Liability. CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as we have changed our methodology.

**NOTE 7 – DEFINED BENEFIT PENSION PLAN (Continued)**

**B. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)**

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits were calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

<u>Asset Class</u>	<u>New Strategic Allocation</u>	<u>Real Return Years 1-10(a)</u>	<u>Real Return Years 11+(b)</u>
Global Equity	47.0%	5.25%	5.71%
Global Fixed Income	19.0%	0.99%	2.43%
Inflation Sensitive	6.0%	0.45%	3.36%
Private Equity	12.0%	6.83%	6.95%
Real Estate	11.0%	4.50%	5.13%
Infrastructure and Forestland	3.0%	4.50%	5.09%
Liquidity	2.0%	-0.55%	-1.05%
Total	<u>100%</u>		

(a) An expected inflation of 2.5% used for this period.

(b) An expected inflation of 3.0% used for this period.

*Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate*

The following represents the District's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.5 percent) or 1- percentage point higher (8.5 percent) than the current rate:

	<u>1% Decrease 6.50%</u>	<u>Discount Rate 7.50%</u>	<u>1% Increase 8.50%</u>
District's proportionate share of the net pension plan liability	\$ 1,008,853	\$ 556,113	\$ 180,383



**NOTE 7 – DEFINED BENEFIT PENSION PLAN (Continued)**

**B. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)**

*Pension Plan Fiduciary Net Position*

Detailed information about the pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

**C. Payable to the Pension Plan**

At June 30, 2015, the District had no amount outstanding for contributions to the pension plan required for the fiscal year ended June 30, 2015.

**NOTE 8 – POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS**

Plan Description

The District provides post-retirement health benefits to all retirees who retire from the System and have reached the minimum age of 50.

Funding Policy

The District is required to contribute the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of the GASB Statement No. 45. The System used the alternative measurement method as allowed under GASB Statement No. 45. The ARC represents a level of funding that if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

Annual OPEB Cost and Net OPEB Obligation/(Asset)

The following table shows the components of the District's Annual OPEB Cost for the fiscal year ended June 30, 2015, the amount actually contributed to the plan (including administrative costs), and changes in the System's Net OPEB Obligation/(Asset):

	<u>Fiscal Year Ending June 30, 2015</u>
Annual Required Contributions	\$ 130,783
Interest on Net OPEB Obligation/(Asset)	24,449
Annual OPEB Cost/Expense	155,232
Contributions made	35,273
Increase in Net OPEB Obligations/(Asset)	119,959
Net OPEB Obligations/(Assets) - beginning of fiscal year	611,233
Net OPEB Obligations/(Assets) - end of fiscal year	<u>\$ 731,192</u>

The District's Annual OPEB cost, the percentage of Annual OPEB Cost contributed to the plan, and the Net OPEB Obligation (Asset) are as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Actual Contribution</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation (Asset)</u>
June 30, 2013	\$ 161,749	\$ 22,163	14%	\$ 491,448
June 30, 2014	\$ 150,441	\$ 30,656	20%	\$ 611,233
June 30, 2015	\$ 155,232	\$ 35,273	23%	\$ 731,192

**NOTE 8 – POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS (Continued)**

Annual OPEB Cost and Net OPEB Obligation/(Asset) (Continued)

The funded status of the plan was as follows:

Valuation Date	Value of Assets	Projected Unit Credit Actuarial Accrued Liabilities	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UUAL as a Percentage of Covered Payroll
June 30, 2012	\$ -	\$ 798,486	\$ 798,486	0%	\$ 438,683	182%
June 30, 2013	\$ -	\$ 1,017,897	\$ 1,017,897	0%	\$ 405,804	251%
June 30, 2014	\$ -	\$ 1,295,363	\$ 1,295,363	0%	\$ 366,444	353%

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The methods and assumptions used include techniques that are designed to reduce short-term volatility in accrued liabilities and the value of assets, consistent with the long-term perspective of the calculations.

The District did not pre-fund retiree healthcare costs nor establish an irrevocable trust for retiree healthcare costs. The decision not to use an irrevocable trust was made because of the current national and state economic issues and the possibility that the funds may be required to provide current services.

**NOTE 9 – COMMITMENTS AND CONTINGENCIES**

According to the District's staff and attorney, no contingent liabilities are outstanding and no lawsuits are pending of any real financial consequence.

**NOTE 10 – SETTLEMENT PAYABLE**

On October 3, 2012, the District was levied a penalty of \$1,109,813 from the Regional Water Control Board for a sewage spill in December 2010. As of June 30, 2015, the balance was \$1,109,813.

**NOTE 11 – PRIOR PERIOD ADJUSTMENT**

A prior period adjustment of \$(1,586,329) was made which affects the statement of net position- Proprietary fund. The prior period adjustment was to record the net pension liability of \$(771,590), deferred outflow of resources of \$50,379, correction of capital assets of \$(4,399,604), and accumulated depreciation of capital assets of \$3,534,486.

## **REQUIRED SUPPLEMENTARY INFORMATION**

**SOUTH SAN LUIS OBISPO COUNTY SANITATION DISTRICT**  
**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY**  
Last 10 Years\*  
As of June 30, 2015

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The following table provides required supplementary information regarding the District's Pension Plan.

	<u>2015</u>
Proportion of the net pension liability	0.0225%
Proportionate share of the net pension liability	\$ 556,113
Covered- employee payroll	\$ 496,070
Proportionate share of the net pension liability as percentage of covered-employee payroll	112.1%
Plan's total pension liability	\$ 13,110,948,452
Plan's fiduciary net position	\$ 10,639,461,174
Plan fiduciary net position as a percentage of the total pension liability	81.15%

\*- Fiscal year 2015 was the 1st year of implementation, therefore only one year is shown.

**SOUTH SAN LUIS OBISPO COUNTY SANITATION DISTRICT****SCHEDULE OF CONTRIBUTIONS**

Last 10 Years\*

As of June 30, 2015

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The following table provides required supplementary information regarding the District's Pension Plan.

	<u>2015</u>
Contractually required contribution (actuarially determined)	\$ 48,422
Contribution in relation to the actuarially determined contributions	48,422
Contribution deficiency (excess)	<u>\$ -</u>
Covered- employee payroll	\$ 569,833
Contributions as a percentage of covered-employee payroll	8.50%

**Notes to Schedule**

Valuation Date: 6/30/2013

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry Age
Asset valuation method	5-year smoothed market
Amortization method	Level percentage of payroll, closed
Discount rate	7.50%
Price Inflation	2.75%
Salary increases	Varies by Entry Age and Service
Investment Rate of Return	7.50% Net of Pension Plan Investment and Administrative Expenses; includes inflation
Mortality	Derived using CalPERS' Membership data for all funds.
Post Retirement Benefit	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter.

\*- Fiscal year 2015 was the 1st year of implementation, therefore only one year is shown.



# **SOUTH SAN LUIS OBISPO COUNTY SANITATION DISTRICT**

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## **STAFF REPORT**

To: Board of Directors  
From: John Clemons, Interim District Administrator  
Date: January 20, 2016  
  
Subject: **COST OF LIVING ADJUSTMENTS FOR DISTRICT STAFF;  
STAFFING ALLOCATIONS; CERTIFICATION STIPEND FOR ALL  
OPERATORS**

### **RECOMMENDATION:**

That the Board approve:

1. A two percent (2%) cost of living adjustment (COLA) for District staff;
2. The creation of a new part-time classification of Plant Worker;
3. The Summer Intern Program; and
4. Authorize that all operators are eligible for the Higher Operator Grade Program.

### **BACKGROUND**

In 2013 the Board granted district staff a five percent equity adjustment, due to salaries being out of the market approximately seven percent. Subsequently in January 2014, the Board approved a two-point-nine percent cost of living adjustment (COLA) based on the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) for Los Angeles/Riverside/Orange County. In January 2015, the Board approved a one percent COLA, when the CPI-W was seven tenths of a percent.

Current full-time staff allocations levels include five Operators (including Shift Supervisor and Operator-in-Training(OIT)), one Superintendent, one Lab Tech/Operator, one Bookkeeper/Secretary, one Senior Maintenance Mechanic, and one Maintenance Assistant position. The Maintenance Assistant and Operator In Training Intern are paid at the same pay level. The Senior Maintenance Mechanic and Maintenance Assistant positions are currently vacant. Staff is requesting to maintain the six full-time operators, and hire a temporary part-time Plant Worker to assist with maintenance duties.

The District formerly had a program during the summer for local high school youth to serve as interns. The program was a win-win, in that staff was able to promote the wastewater industry as a career path and address project work, while local youth were provided valuable experience

while benefitting from summer employment. Staff is requesting authorization to bring back the Summer Intern Program.

Currently, all operators except the Lab Tech/Operator are eligible for the Higher Operator Grade Program, a 2.5% stipend for possession of state certification at a level that is higher than required in the respective job description. The Lab Tec/Operator classification was formerly a full-time Laboratory Technician. With the change in staffing the Lab Tech/Operator spends half time in the lab and serves as an operator half time. The Lab/Tech Operator is responsible for the laboratory and provides Lab training to operators for cross training and coverage. In the past year, several operators attained a Grade III certification including the Lab/Tech Operator. While all full-time operators at Operator II are receiving the 2.5% stipend, the incumbent Lab/Tech Operator is not. The program is meant to encourage professional career development, which in turn better serves the District.

### **DISCUSSION:**

District staff continues to perform at exemplarily levels and is ever increasing efforts to decrease costs. Currently, 8 of the approved 10 regular full-time staff positions are filled. The most recent CPI-W information available for the prior twelve months is November to November (2015) at a level of 1.4%. In addition, operators are currently out of the market over 2%. Based on this information, it is proposed that the COLA be two-percent (2.0%) effective January 23, 2016, which is the first day of the next full pay period.

The proposed increases are reflected in the Salary Schedule (Exhibit A), which also includes the total number of proposed authorized positions. Previous staffing levels have included five full-time operators, and two full-time maintenance positions, with the lab/tech position designated to be an operator half-time and a lab tech half time. To ensure efficiency in staffing the plant with technical operations staff at critical times there is a need for six operators (2 at Operator III, and 3 at Operator II and 1 OIT) and part-time maintenance staff. This can be accomplished by moving the allocation of the currently vacant Senior Maintenance Mechanic position to the Operator III position and moving currently vacant Maintenance Assistant, to Plant OIT, for a total of three (3) allocations (at the Plant Operator II level), and the addition of a part-time/temporary Plant Worker to perform maintenance duties during peak periods. All plant operators are responsible for some level of maintenance type duties; however, it is more cost effective and efficient to avoid interruptions of technical duties to attend to maintenance duties, by assigning most of those duties to a part-time staff member.

The Plant Worker classification is meant to be fluid to the temporary hire duties assigned, for example a qualified certified operator may be hired to fill a temporary long-term leave of absence for a full-time employee. The vacancy or "like duties" will drive the hourly rate paid. At this time, the only anticipated use of the Plant Worker is to perform maintenance duties, which does not require wastewater certification.

Another temporary addition to assist staff and to encourage careers in wastewater with local youth, is to bring back the Summer Intern Program for high school aged individuals. The Intern program would be approximately ten (10) weeks during the summer months, with a limit of about 20 hours per week, per individual, and will pay an hourly rate of \$12.00 an hour. Staff requests approval to hire two Summer Interns. The assigned duties will not require certification, and will assist full time staff with project type maintenance of the equipment, while creating

summer work for local youth, with the goal of attracting them to the wastewater industry. Recruitment efforts would be timed in the spring, prior to the end of the school year, thus the timing for approval of this program.

Lastly, staff recommends adding the classification of Lab Tech/Operator to the Higher Operator Grade Program, wherein operators that achieve and attain a higher-grade certification than is required for their classification are eligible for 2.5% stipend. The Lab Tech/Operator classification was created several years ago. The current incumbent has achieved a Level III certification and is the only operator not being compensated for holding certification higher than is required for the classification. Authorizing all operators to be eligible for the 2.5% stipend will encourage continued career development through higher certification and enhance staffing levels for the District in retaining well qualified staff.

### **Fiscal Consideration**

- The two percent (2%) COLA is estimated to cost \$13,000 annually when fully staffed;
- The adjustment to staffing levels and creation of the Plant Worker is estimated to cost \$20,000 annually;
- The Summer Intern program is estimated to cost \$4,800 annually;
- The 2.5% stipend for the Lab Tech/Operator position will cost an additional \$1,600 annually.
- The estimate additional total cost for these adjustments to the current budget year (FYE 2016) is \$20,000. This can be accomplished within the current budgeted allocations.

### **Options**

1. Authorize the 2% COLA, part-time Plant Worker classification, Summer Intern Program, and include all operators in the Higher Operator Grade Program, as recommended.
2. Decline to provide staff with a cost of living adjustment, approve the Plant Worker classification, the Summer Intern Program, or including all operators in the Higher Operator Grade Program.
3. Provide staff with other direction as deemed by the Board of Directors.

John L. Clemons, III  
Interim District Administrator



2015-16 FISCAL YEAR  
SALARY RANGE MONTHLY COMPENSATION  
RESOLUTION 2016-340 EXHIBIT "A"  
(2% COLA)

FULL TIME EMPLOYEES

Classifications	Authorized Number	Step 1	Step 2	Step 3	Step 4	Step 5
District Administrator	1	Range To Be Determined				
Plant Superintendent	1	7923	8320	8736	9172	9631
Shift Supervisor	1	5478	5752	6040	6342	6659
Plant Operator III	2	4864	5108	5363	5631	5913
Senior Maintenance Mechanic	0	4727	4963	5211	5472	5745
Lead Operator	0	4515	4740	4977	5226	5487
Lab Tech/Operator	1	4515	4740	4977	5226	5487
Plant Operator II	3	4386	4605	4836	5077	5331
Plant Operator I Operator	0	4073	4277	4490	4715	4951
In Training Intern	1	3681	3865	4059	4261	4474
Maintenance Assistant	0	3681	3865	4059	4261	4474
Bookkeeper/Secretary	1	3994	4194	4404	4624	4855

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PART-TIME EMPLOYEES RATES

Board Member or Alternate	\$100 per meeting attended (Resolution 1995-150)
Attorney	Per Contract
Plant Worker	Hourly rate of equiv position (Resolution 2016- 340)
Summer Intern	\$12.00/hour
Volunteers	Per Contract

## **RESOLUTION 2016-340**

### **A RESOLUTION OF THE BOARD OF SOUTH SAN LUIS OBISPO COUNTY SANITATION DISTRICT GRANTING A COST OF LIVING ADJUSTMENT TO SALARIES OF DISTRICT STAFF, APPROVING A NEW PART-TIME CLASSIFICATION, APPROVING A SUMMER INTERN PROGRAM, AND APPROVING ALL OPERATORS AS ELIGIBLE FOR THE HIGHER OPERATOR GRADE PROGRAM**

**WHEREAS**, the South San Luis Obispo County Sanitation District (District) desires to remain competitive in salary and benefits that it provides to its employees and to staff its plant in an effective and economical manner; and

**WHEREAS**, the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) for the Los Angeles area November 2014 to November 2015 was 1.4; and

**WHEREAS**, in January 2015 the District granted employees a cost of living adjustment (COLA) raising their salaries by 1 percent; and

**WHEREAS**, staff has proposed a new part-time classification of Plant Worker to relieve full-time staff of general maintenance duties, as well as serve to fill temporary long term vacancies; and

**WHEREAS**, the District desires to bring back the Summer Intern program, to attract local youth to the wastewater industry, and provide summer work for high school age youth; and

**WHEREAS**, the District desires that all operators be eligible for the Higher Operator Grade Program, which carries a salary stipend of 2.5%; and

**NOW, THEREFORE, IT IS HEREBY RESOLVED**, that the Board of South San Luis Obispo County Sanitation District hereby approves Exhibit A, which:

1. Grants employees a COLA adjustment increasing their salaries by two percent effective January 23, 2016;
2. Approves the part-time classification of Plant Worker; and
3. Authorizes the Summer Intern program for local youth; and
4. Authorizes that all operators are eligible for the Higher Operator Grade Program.

The Interim District Administrator, or his/her designee, is hereby authorized and directed to take all steps necessary to implement this resolution.

**PASSED AND ADOPTED** at a regular meeting of the South San Luis County Sanitation District Board of Directors held this 20th day of January 2016.

On the motion of \_\_\_\_\_seconded by\_\_\_\_\_, and after  
the following roll call vote:

AYES:  
NOES:  
ABSENT:  
CONFLICTS:

\_\_\_\_\_  
John Shoals, Chairman  
Board of Directors  
South San Luis Obispo County Sanitation District

ATTEST:

\_\_\_\_\_  
DISTRICT SECRETARY

APPROVED AS TO FORM:

BY:\_\_\_\_\_  
DISTRICT COUNSEL

CONTENTS:

BY:\_\_\_\_\_  
DISTRICT ADMINISTRATOR

**To:** Board of Directors

**From:** John Clemons, Interim District Administrator

**Date:** January 20, 2016

**Subject:** **REPORT ON REVIEW OF PAST MANAGEMENT PRACTICES BY  
KNUDSON & ASSOCIATES; REQUEST FOR FUNDING**

## **RECOMMENDATIONS**

Staff recommends that the Board:

- Receive and file the Review of Management Practices report prepared by Knudson & Associates; and
- Direct staff to carry out the suggestions in the Report, as explained below; and
- Approve additional budget in the amount of \$14,205.53 to complete the project.

## **BACKGROUND**

On March 9, 2015, the District requested proposals from professional management consulting firms “to evaluate expenditures, operations and management practices” at the District from 2004 to 2013. The District wished “to determine the quality of the management and operations provided” and whether “the financial procedures and expenditures [were] normal for the type of operation that the District performs.”

At its March 6, 2015 meeting, the District Board selected nine members of the public to review proposals and to recommend the preferred proposer. The Committee members held two publicly noticed meetings and then recommended that the Board hire Knudson & Associates for the project. The Board hired Knudson & Associates on May 6, 2015. The Board’s contract with Knudson & Associates included an initial budget of \$55,000.

As directed by the Request for Proposals, Knudson & Associates prepared a project work plan for Board approval. The Board approved the work plan at its June 17, 2015 meeting. The approved work plan is **Attachment “A”** to this memo.

By August, 2015 Knudson & Associates had made significant progress on the project, but had found that the project budget needed to expand in order to conduct additional interviews and document review. Mr. Knudson requested, and the Board approved, an additional \$22,500 to conduct interviews and document review on August 19, 2015. Although the project review budget expanded significantly, no additional funds were requested or approved to prepare a report documenting the review and making recommendations.

Given the expansion of project review and the volume of material to organize and report, Mr. Knudson had to more than double his initial time estimate in order to complete this project. Consequently, staff requests that the Board budget an additional \$14,205.53 for project completion.

## DISCUSSION

Knudson & Associates submitted its final report to the District mid-day on January 15, 2016. On advice of counsel to protect constitutional rights of privacy and to respect confidentiality of personnel matters, and in order *not* to jeopardize the District's position in pending litigation, portions of the report have been redacted. The redactions consisted of the section discussing plant violations (currently in litigation) and removing names and identities of interviewees and those involved in personnel matters. The redacted report is **Attachment "B"** to this memo.

The report contains suggestions for future action. Staff has combined these suggestions with additional recommendations; these appear in **boldface** type below. Each group of recommendations is followed by a short status report explaining steps the District has already taken, or plans to take, to implement the recommendations. In some cases, staff seeks Board direction about how to proceed.

- **Conduct an annual Board review of important District policies (e.g. Board bylaws, purchasing policy). Conduct an annual Board review of Purchasing and Construction Policy; when conducting the annual Board review of the District's Purchasing and Construction Policy, consider including provision for consultant services contracts that exceed specified amounts. Vendors who have contracts/dealings with the SSLOCSD should be advised of the regulations/laws that prevent a conflict of interest whereby a District employee cannot receive any form of payment from the vendor, either directly or indirectly.**

Status: A review of the Bylaws is scheduled for the Board's first meeting in February. The purchasing policy is proposed for review with the annual budget.

- **Enter into an annual contract with a firm providing general engineering services, which requires Board review before exceeding a specified payment amount; conduct an annual Board review of District Engineer contract; assure that District contracts for engineering services require Board review before exceeding a specified price limit.**

Status: At its January 6, 2016 meeting, the Board authorized and directed staff to enter into a one-year contract for general engineering services with MKN & Associates. The contract has a not-to-exceed amount of \$100,000.

- **Retain recorded Minutes of Board meetings at the District for at least three years, to provide a digital backup to written minutes and to facilitate an audit trial for those issues arising out of Board meetings.**

Status: The Board retained AGP Video, Inc. to provide video streaming, digital archiving and indexing services on July 1, 2015. The District is finalizing a contract with AGP which has a one-year term, and is renewable for subsequent one-year terms.

- **Hire an in-house District Administrator who will be responsible to independently review and administer contracts for services, in particular consultant contracts for engineering services; conduct an annual Board performance evaluation of the District Administrator.**

Status: The District has hired CPS HR to assist in recruiting a fulltime District Manager. Annual performance evaluations can proceed once the recruitment is complete.

- **Enter into written contracts with participating agencies regarding collection and payment of fees; OR**
- **Handle collection and payment of fees in house; OR**
- **Bill and collect fees using the County of San Luis Obispo.**

Status: Written contracts with Arroyo Grande and Grover Beach have been prepared and submitted to the agencies for execution. The Board has directed staff to temporarily conduct billing in-house for Oceano Community Services District. Staff, along with consultant NBS and legal counsel, is preparing necessary documents for Board consideration to facilitate collecting fees on the tax rolls.

- **Hire an independent human resources professional to perform human resources functions for the District.**

Status: The Board has retained Lara HR Services to provide human resources consulting services.

- **Retain personnel files under lock and key at the wastewater treatment plant (WWTP), or a secure location accessible to appropriate personnel; retain District records at the WWTP, or a secure location accessible to appropriate personnel. The current District Counsel should send a demand letter to the Wallace Group and the former District Counsel ask for all of the District's files and assets be returned, forthwith. The District needs to update its recordkeeping and filing system to comply with current sections of the Operator's Manual. Electronic-type record keeping programs have been in existence for many years and would make the records and files retrievable without going through boxes and boxes of unorganized records budget for, and authorize and direct District staff to, locate District assets and create and maintain an inventory of District records. Budget for, and authorize and direct District staff to, locate District assets and create and maintain an inventory of District records.**

Status: Personnel files are kept in a locked location at the WWTP. Official District records are also kept at the WWTP, and historic records reside inside the sea train at the WWTP. Former counsel Mike Seitz has already provided electronic files and various hard-copy files to District counsel. If directed by the Board, District counsel will contact the Wallace Group to obtain any retained files, and staff will include a budget item for 2016-17 for records inventory, recordkeeping and filing system, and retention policy.

- **Continue practice of current management to perform administrative functions at the District by the Plant Superintendent and the Plant Secretary/Bookkeeper, not by outside contractors.**

Status: District staff currently performs most administrative functions in house. Where necessary (e.g., drafting legal documents) or efficient (e.g., report prepared by consultant), consultants assist with agenda preparation.

- **Follow standard accounting practices by rotating the District's auditor consultant at least every five years. The Board needs to review the audit engagement letters and determine the scope of the audit and perhaps consider adding a requirement to check variances of expense items that exceed an increase of 10% on a yearly basis.**

Status: The current District auditor consultant, Moss Levy, has served the District for five years. Staff's annual report to the Board seeking auditor services will note the number of years served by the current consultant and advise the Board that standard accounting practices advise rotating the auditor consultant at least every five years. If directed by the Board, staff will add a requirement to check variances of expense items that exceed an increase of 10% on a yearly basis to the request for proposals for District auditor consultant.

- **Avoid using District Reserves for operational expenses.**

Status: District reserves are not used for operational expenses.

- **Seek appropriate funding to pay for redundancy projects. Diligently proceed to complete needed redundancy projects.**

Status: Notice of the District's proposed wastewater treatment rate increase—a major component of funding to pay for redundancy projects—was mailed to District customers and property owners December 30, 2015. The notice sets a public hearing to discuss, and potentially approve, the new rates on February 17, 2016. The Board approved a professional services agreement with John F. Rickenbach Consulting at its January 6, 2016 meeting. Mr. Rickenbach's contract requires him to assist the District in performing environmental review and obtaining permits as needed for redundancy projects. These are the critical initial steps of the redundancy project.

- **Forward information concerning waste discharge permits for State Parks and Yo Banana Boys to appropriate federal, state, or county law enforcement officials to determine whether further investigation of potential violation of law is warranted.**

Status: If directed by the Board, staff will forward Mr. Knudson's report to appropriate law enforcement agencies for review.

## **FISCAL CONSIDERATIONS**

By implementing the Knudson & Associates report recommendations, the District Board and administration will keep closer control over its finances.

### **OPTIONS**

1. Modify, and direct staff to carry out, modified recommendations from the report.
2. Direct staff to budget a different amount for report completion.

Attachments:

“A” – Approved Work Plan

“B” – Knudson Report (redacted)



WORK PLAN SSLOSD			
		Mr. Knudson Hourly Rate	Associate Hourly Rate
<b>PHASE ONE</b>	<b>Hours</b>	\$ 150.00	\$ 75.00
<b>Week One</b>	40	\$ 6,000.00	
	40		\$ 3,000.00
Hotel	\$105.00 per night	\$ 525.00	\$ 525.00
Mileage Round trip	.50 x 270(135 miles each way)	\$ 135.00	
Travel time	3 hours each way	\$ 450.00	\$ 225.00
Admin Fee 10%		\$ 600.00	\$ 300.00
Individual Totals		\$ 7,710.00	\$ 4,050.00
<b>Grand Totals</b>		<b>\$ 11,760.00</b>	
<b>Week Two</b>	40	\$ 6,000.00	
	40		\$ 3,000.00
Hotel	\$105.00 per night	\$ 525.00	\$ 525.00
Mileage Round trip	.50 x 270(135 miles each way)	\$ 135.00	
Travel time	3 hours each way	\$ 450.00	\$ 225.00
Admin Fee 10%		\$ 600.00	\$ 300.00
Individual Totals		\$ 7,710.00	\$ 4,050.00
<b>Grand Totals</b>		<b>\$ 11,760.00</b>	
<b>Two Week Total Phase One</b>		<b>\$ 23,520.00</b>	
		Mr. Knudson Hourly Rate	Associate Hourly Rate
<b>PHASE TWO</b>	<b>Hours</b>	\$ 150.00	\$ 75.00
<b>Week One</b>	40	\$ 6,000.00	
	40		\$ 3,000.00
Hotel	\$105.00 per night	\$ 525.00	\$ 525.00
Mileage Round trip	.50 x 270(135 miles each way)	\$ 135.00	
Travel time	3 hours each way	\$ 450.00	\$ 225.00
Admin Fee 10%		\$ 600.00	\$ 300.00
Individual Totals		\$ 7,710.00	\$ 4,050.00
<b>Grand Totals</b>		<b>\$ 11,760.00</b>	

<b>Week Two</b>	40	\$ 6,000.00	
	40		\$ 3,000.00
Hotel	\$105.00 per night	\$ 525.00	\$ 525.00
Mileage Round trip	.50 x 270(135 miles each way)	\$ 135.00	
Travel time	3 hours each way	\$ 450.00	\$ 225.00
Admin Fee 10%		\$ 600.00	\$ 300.00
Individual Totals		\$ 7,710.00	\$ 4,050.00
<b>Grand Totals</b>		<b>\$ 11,760.00</b>	
<b>Two Week Total Phase Two</b>		<b>\$ 23,520.00</b>	
		<b>Mr. Knudson Hourly Rate</b>	<b>Associate Hourly Rate</b>
<b>PHASE THREE</b>	<b>Hours</b>	\$ 150.00	\$ 75.00
<b>Week One</b>	40	\$ 6,000.00	
	10		\$ 750.00
Mileage Round trip	.50 x 270(135 miles each way)	\$ 135.00	
Travel time	4 hours each way	\$ 600.00	\$ 300.00
Admin Fee 10%		\$ 600.00	\$ 75.00
Individual Totals		\$ 7,335.00	\$ 1,125.00
<b>Grand Totals</b>		<b>\$ 8,460.00</b>	
<b>TOTALS FOR THREE PHASES</b>	<b>370 Man hours</b>	<b>\$ 55,500.00</b>	