

Marin/Sonoma
Mosquito & Vector Control District
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BOARD OF TRUSTEES

BUDGET COMMITTEE MEETING

DATE: Wednesday February 26th, 2020
TIME: 10:00 A.M. to 11:30 A.M.
LOCATION: District Offices
Teleconference Option: 1-605-472-5633 Access Code: 781 567

Please note that the Committee will meet simultaneously with the Executive Committee.

*Items marked * are enclosed attachments*

1. ROLL CALL

Shaun McCaffrey, Chair
Gail Bloom, Vice-Chair
Art Deicke
Pamela Harlem
Susan Hootkins
Ranjiv Khush

Ex-Officio:
Carol Pigoni, President

2. PUBLIC TIME

*Public Time is time provided so the public may make comment on any item **not on the agenda.***

*Please limit your comments to **three (3) minutes** per person or **twenty (20) minutes** per subject in total so that all who wish to speak can be heard.*

3. NEW BUSINESS

A. Presentation by Municipal Resource Group (MRG) of their draft report: "Capital Asset Replacement Program Update and Target Fund Balance Analysis." MRG staff in attendance will be: Mike Oliver, Dana Shigley & Mike Bakaldin.

- B.** Discuss report with MRG staff, Executive Committee members and District staff.
- C.** Provide direction to MRG & District staff regarding the report & consider providing a brief report to the Board of Trustees at the March 11, 2020 meeting. If the committee approves, MRG plans to present the report at the Board's meeting on March 11, 2020.
- D.** Brief report by staff on current fiscal year financial performance and the proposed timeline for the FY 2020-21 budget.

4. OPEN TIME FOR COMMITTEE OR STAFF COMMENTS

5. SET DATE AND TIME OF NEXT MEETING

6. ADJOURNMENT

MARIN/SONOMA MOSQUITO AND VECTOR CONTROL DISTRICT

Capital Asset Replacement Program Update and Target Fund Balance Analysis

FINAL DRAFT



Prepared by

**Mike Oliver
Mike Bakaldin
Dana Shigley**

Municipal Resource Group, LLC

February 2020

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Exhibits

- A. Fund Balance Classifications and Target Balances
- B. Capital Asset Replacement Schedule
- C. Assets Excluded from the Asset Replacement Schedule
- D. Pay-As-You-Go Strategy

I. EXECUTIVE SUMMARY

The Marin/Sonoma Mosquito and Vector Control District (“District”) requested Municipal Resource Group, LLC’s (MRG) assistance to conduct an analysis and develop recommendations for modifications and improvements to the Capital Asset Replacement Program and the District’s current Fund Balance Targets. MRG and the District worked together to analyze the two activity areas. MRG has developed recommendations, presented them to District staff and included them in this report.

MRG began our analysis of the District’s Capital Asset and Replacement Program by reviewing the previous MRG program created in 2016. Based on District staff input, we modified the asset list to include only those assets valued at more than \$5,000. The items removed (valued between \$500 and \$4,999) were included in a separate analysis that identifies and annualizes the projected increase in operating costs for inclusion in the District’s budget. We also developed several funding options for the Capital Replacement Program designed to add predictability to the replacement plan and provide adequate funds to ensure the program is self-funding and sustaining.

In conducting the analysis of the District’s Target Fund Balance Policy, we developed alternative approaches designed to provide the District with a prudent level of financial security while enhancing its utilization of current reserves. These alternatives were discussed with District staff. Our report contains recommendations designed to reduce the District’s unfunded liabilities, preserve adequate reserves, improve yearly cash flow, and help protect annual budgets from future economic downturns.

As part of the Capital Asset Replacement Schedule analysis, MRG completed the following activities and provides the following recommendations:

- MRG analyzed the equipment and facilities included in the District’s current Capital Asset Replacement Schedule, including only those assets with a value of more than \$5,000. As mentioned previously, MRG removed items valued at less than \$5,000 and estimated annual replacement costs. The remaining items were updated to reflect current costs, replacement frequency and replacement values.
- The District currently funds its capital replacements on a pay-as-you-go basis, resulting in significantly fluctuating contributions year to year, ranging from the low \$1,000s to \$1.0 million. To provide budget predictability and ensure adequate funding, we developed a revised funding program with consistent annual contributions and a beginning fund balance to ensure the yearly payment (and fund balance when needed) will be adequate to acquire all the identified items over the 20-year funding cycle.
- MRG developed two options for the funding program, including a \$1.0 million or \$2.0 million beginning fund balance. Both options will result in the same balance at the end of the 20-year period (\$1.0 million). However, the annual payments for

the \$1.0 million option will be significantly higher, requiring additional annual contributions to fully fund the program.

- The benefits of these recommendations include providing a predictable budget cost over the life of the program and ensuring adequate funds are available to make critical capital purchases.

As part of the District's Target Fund Balance Policy analysis, MRG completed the following activities and provides the following recommendations:

- MRG analyzed the District's current Target Fund Balance Policy, which is designed to ensure adequate funds for operations, capital replacement, cash flow interruptions and unforeseen critical emergencies.
- These Target Fund Balances were developed following the NBS Fiscal Review, and MRG confirmed that the District is currently in compliance with the reserve policy. Our analysis focused on both the practicality of the Fund Balances (i.e. purpose, likelihood and consequences of inadequacies) and the potential benefits the District could gain by applying any underutilized Fund Balance to existing unfunded liabilities. In addition, we explored the potential year-over-year benefit of reducing the obligations for unfunded liabilities on the District's annual cash flow.
- Our recommendation focuses on two of the current Fund Reserves: Capital Asset Replacement and Minimum Fund Balance for Interruptions in Revenue Flow. As discussed above, the Capital Replacement Fund Balance can be reduced to \$1.0 million and not significantly impair the District's ability to replace its equipment and facilities. Our analysis of the District's General Fund Minimum Fund Balance demonstrates that this Fund is adequate to provide a significant buffer for the District's operating activities during the quiescent funding period between receipt of property tax revenues. Based on this analysis, we conclude that the Interruptions in Revenue Flow Reserve provides extra cushion that can be prudently utilized to reduce a portion of the District's unfunded liabilities.
- The District's unfunded liabilities currently include an OPEB obligation that requires a yearly \$509,000 payment for the next 19 years. This amount is estimated to fully fund the amount required to pay for the District's future medical cost commitments.
- MRG recommends that the District utilize \$1.0 million from the Capital Replacement Reserve and approximately \$3.1 to \$4.0 million from the Interruptions in Revenue Reserve to substantially retire the OPEB liability, reducing annual costs by \$370,000 to \$450,000. The District could use these funds to rebuild reserves, offset declining revenues or other ongoing District needs.

Based on our review of the District's Capital Replacement Program and Target Reserve Policy, we believe that the District has a significant opportunity to utilize existing resources to make prudent modifications to these Programs and Policies and improve its financial position. These recommendations are based on the principle that the District needs to retain adequate

reserves for the contingencies it has identified. We believe that these modifications will not adversely impact these Policies.

II. PROJECT BACKGROUND AND CURRENT CONDITIONS

A. Project Background

The District’s Capital Asset Replacement Program was last updated in 2016. Since that time, the District has disposed of and acquired assets, as well as increased its capitalization level from \$500 to \$5,000, decreasing the number of assets in the capital program. These changes warrant a complete update to the Capital Asset Replacement Program.

The 2016 Capital Asset Replacement Study included a 20-year Capital Asset Replacement Forecast and two potential capital asset funding strategies. The Pay-As-You-Go Analysis determined the annual budget requirements to replace the existing capital assets in the year that they reached the end of their useful lives (Annual Budget Strategy). The Net Present Value Analysis determined the amount of money required to be reserved up front to pay for the eventual replacement of the existing capital assets (Reserve Strategy). Due to the significant up-front capital outlay, the District chose to continue to fund capital asset replacement using the Annual Budget Strategy.

The District continues to look for ways to reduce costs and set aside necessary funds to protect its finances against future funding shortfalls. To this end, the District asked MRG to complete two primary tasks: (1) update the District’s capital asset schedule and make recommendations for capital asset funding strategies; and (2) review the District’s fund balance targets to determine if they are sufficient or if adjustments are warranted.

B. Current Conditions

Although the District suffered negative net revenues during the recession and recovery years, for the past several years the District has experienced positive cash flow each year. This is the result of strong general revenue growth in the 2017/18 and 2018/19 fiscal years (5.91% each year) and excellent management of expenditures.

	2016/2017	2017/2018	Change	2018/2019	Change
General Revenue					
Taxes and Assessments	\$8,623,157	\$8,945,986	3.7%	\$9,389,137	5.0%
Use of Money and Property	\$57,377	\$128,001	123.1%	\$285,003	122.7%
Other Revenue	\$224,529	\$357,254	59.1%	\$314,435	-12.0%
Total General Revenue	\$8,905,063	\$9,431,241	5.9%	\$9,988,575	5.9%
Program Revenue	\$114,302	\$91,054	-20.3%	\$130,671	43.5%
Expenses	\$8,406,793	\$8,047,663	-4.3%	\$8,892,909	10.5%
Change in Net Position	\$612,572	\$1,474,632	140.7%	\$1,226,337	-16.8%
Ending Net Position	\$8,429,866	\$9,904,498	17.5%	\$11,130,835	12.4%

As with all local government agencies, operating revenues and expenses will vary year to year based on many factors, most of which are out of the control of the agency: regional and national economic cycles, housing prices, and the labor market will all impact District finances. Additionally, in the case of MSMVCD, public health and vector outbreaks can result in unplanned and significant expenses. It is important to look beyond the recent fiscal successes and plan for the inevitable long-term cycles that could once again stress District finances.

Striving to ensure that long-term finances remain stable, the District recently completed several important tasks. The District contracts with NBS to provide annual 10-year operating projections and, in late 2018, NBS completed its most recent analysis with recommendations for improving and stabilizing the District's finances. This analysis concluded that, despite positive cash flow in the last few years, growth in expenses in the coming decade will outpace growth in revenues, leaving the District in a negative cash flow position. The NBS report included four recommendations for the District to implement:

1. Revise and formalize financial policies for the District's fund balance targets. This task was completed in March 2019.
2. Revise budgeting practices to closer match spending habits. This is an ongoing task, requiring changes to budgeting methods and approach. As part of this effort, the District recently changed its method of projecting operating revenues to include actual revenue receipts for the prior year.
3. Update and develop a formal capital improvement plan and program. This is one of the two objectives for this MRG report.
4. Consider a minor new assessment to maintain the District's financial position. The District considered this recommendation and declined to move forward at this time, opting to take a closer look at fiscal trends and needs before considering a new assessment.

The District's newly-updated Fund Balance Classifications and Target Balances Policy is attached as **Exhibit A**. This policy sets aside five fund balance reserves intended to stabilize the District's finances and help ensure the District can continue to provide critical services when unanticipated fluctuations in revenues and expenses arise.

Public Health Emergency Reserve Fund Balance Commitment. This reserve will provide critical funds if needed to respond to a significant public health emergency, such as an outbreak of vector-borne disease or discovery of invasive species. The policy requires that 20% of the current year budgeted annual expenditures be set aside for this purpose. For the 2019/20 fiscal year, the District has a total expense budget of \$9,808,634, resulting in a required commitment of \$1,961,727. The District's balance sheet for June 30, 2019 shows a commitment of \$1,175,195; however, since January 30, 2019, the District transferred additional funds to this commitment and now has a current balance of \$1,970,100. The District is in compliance with this requirement.

Capital Replacement and Projects Target Fund Balance. This reserve is intended to set aside funds for the long-term replacement of capital assets, including vehicles, laboratory

equipment and similar equipment and facilities. Currently, the District has adopted a pay-as-you-go approach to capital asset replacement, expecting to budget from current year operating revenues each year as needed to replace capital assets. The policy requires a fixed \$2 million commitment to this fund to act as a buffer should capital needs exceed current year resources. The District’s balance sheet for June 30, 2019 shows a fund balance of \$3,194,012. However, since June 30, 2019, the District has reduced this balance to \$2,000,000, as required by the policy. The District is in compliance with this requirement.

General Fund Minimum Fund Balance to provide working capital during the “no-income” period and General Fund Minimum Fund Balance for Interruptions in Revenue Flow. These two policies address different, but related areas. The General Fund minimum balance during the “no-income” period addresses the intermittent nature of the District’s revenues, and the General Fund minimum balance for interruptions in revenue flow addresses situations where the District’s revenues are not available due to outside events, such as a natural or other disaster. Approximately 95% of the District’s total revenues are collected by the Counties of Sonoma and Marin, and distributed to the District twice annually. As such, the District receives little or no revenue for most months of the year, while expenses continue consistently throughout the year. These two fund balances will help ensure that the District has sufficient cash on hand to cover expenses during the months when very little revenue is received, as well as help protect District operations should there be an unanticipated and significant interruption in revenues. These two policies require similar amounts, equal to 50% of budgeted expenditures (with and without capital expenses).

	2109/20 Budget	50% Requirement
Working Capital during “No Income” Period	\$9,808,634	\$4,904,317
Interruptions in Revenue Flow	\$9,613,634 <i>(excludes capital expenses)</i>	\$4,806,817
Total Requirement		\$9,711,134

As of June 30, 2019, the District has fund balances and assignments as follows:

	June 30, 2019
Unassigned General Fund Balance	\$7,465,556
Commitment for Dry Period (No Income) Funding	\$3,200,000
Less: General Fund transfer to Retiree Health CERBT after June 30, 2019	(\$1,608,646)
Plus: Transfer from Capital Reserve Fund after June 30, 2019	\$428,310
Available Funds	\$9,490,269

The District is in substantial compliance with the funding requirements of this policy. Actual cash in the District’s Unassigned Fund Balance varies during the year; during 2019, actual cash ranged from \$7.4 to \$11.4 million. (Note that, while each of these two reserves are identified as “assigned fund balances” in the adopted policy, the financial statements show \$3.2 million assigned and the balance unassigned. This will be changed in future year financial statements to reflect the new policy.)

Insurance Pool Contingency Target Fund Balance. The District participates in the Vector Control Joint Powers Agency to manage self-insurance for general liability and workers’

compensation losses. While the JPA does provide insurance for significant losses, the District maintains a self-insured retention, similar to an insurance deductible, to cover some losses. This policy requires that the District will maintain a cash balance on deposit with the Joint Powers Agency equal to the amount determined appropriate by the JPA. As of June 30, 2019, the District has \$791,760 on deposit with the JPA, which exceeds the JPA minimum requirement. The District is in compliance with this requirement.

III. PROJECT METHODOLOGY

MRG worked collaboratively with District staff in conducting the analysis and in preparing this report. The project methodology included the following steps, tasks, analyses and deliverables:

- MRG consultants met with key District staff to confirm the project objectives and discuss the project tasks, timelines and deliverables.

For the Capital Asset Replacement Program Update portion of this report:

- MRG received a preliminary list of District assets, including date of purchase, purchase price or estimated replacement cost for each asset, and estimated service life. The District asset list was primarily derived from a Capital Asset Replacement Study conducted in 2015/16.
- MRG and District staff performed field assessments to verify and update the list of assets and to evaluate asset condition. MRG and District staff also standardized asset categories, refined useful life estimates to more accurately reflect the District's asset replacement practices and timelines, and updated replacement cost estimates.
- MRG prepared a Capital Asset Replacement Schedule, identifying for each capital asset the year it was placed in service, as well as its useful life, original or estimated acquisition cost and current replacement cost. MRG also prepared a list of existing capital assets that the District does not plan to replace.
- Based on the Capital Asset Replacement Schedule, MRG prepared a 20-year Capital Asset Replacement Forecast. Using the forecast, MRG and District staff considered the condition of all existing assets, especially those scheduled to be replaced in the next five years, to create a more refined five-year capital replacement expenditure plan.

For the Analysis and Recommendations for Target Fund Balance Analysis portion of this report:

- MRG consultants met with the District Manager and the Financial Manager to discuss the District's financial challenges, fiscal history, project goals, and to review financial reports. This included discussion of the District's long-term liabilities for retirement and retiree medical benefits.
- MRG consultants reviewed the following documents: current District reserve policy; District financial statements for the years ended June 30, 2018 and 2019;

operating and capital budget for fiscal year 2019/20; NBS 10-year projection dated December 3, 2018; Marin County Employees' Retirement Association's ("MCERA") actuarial report as of June 30, 2018; Bartel Associates' retiree healthcare plan actuarial valuations as of June 30, 2017 and 2019; Marin County Treasurer monthly statements for 2018 and 2019, and miscellaneous emails and other documents regarding the District's fiscal status.

- MRG developed a proposed long-term funding plan for the Capital Asset Replacement Program.
- MRG analyzed District fiscal information, reviewed samples from other agencies, performed calculations and developed recommendations for District fund balances and the reserve policy.

To complete the project:

- MRG prepared a draft Capital Asset Replacement Program Update and Target Fund Balance Analysis for consideration by District staff.
- MRG delivered the final Capital Asset Replacement Program Update and Target Fund Balance Analysis Report.

IV. CAPITAL ASSET REPLACEMENT SCHEDULE UPDATE

The District's capital assets include major building systems, vehicles and equipment. Several non-capital maintenance items, such as interior and exterior painting and flooring materials, were included in this report at the District's request. Even though these items do not qualify as capital assets, the District has an ongoing need to finance periodic replacement of these costly items.

MRG prepared a Capital Asset Replacement Schedule (**Exhibit B**), which includes approximately 113 separate assets, each with a current replacement cost in excess of \$5,000. Existing capital assets that will not be replaced and assets with a replacement cost of less than \$5,000 are not included in the Capital Asset Replacement Schedule.

The Capital Asset Replacement Schedule provides the following information:

Year Purchased/In Service – the year in which the capital asset was either purchased or placed into service by the District.

Asset Description – a brief description and/or the brand/model of the capital asset.

Service Life – the estimated useful life of the capital asset. Useful lives range from five years for computer servers and an asphalt seal coat to 40 years for an excavator.

Actual/Estimated Cost – the actual or estimated cost of the capital asset.

Year Actual/Estimated Cost Determined – the year that the capital asset's *Actual/Estimated Cost* was determined via purchase price or estimate.

Replacement Cost Source – the methodology or the source of information used to estimate the current (2019/20) replacement cost of the capital asset. Several methods and/or sources were used to estimate current replacement cost:

Cost + ENR-BCI – for major building systems, the analysis uses the *Actual/Estimated Cost* and adjusts that cost by the Engineering News Record – 20 City Average Building Construction Cost Index (ENR-BCI) from the *Year Actual/Estimated Cost Determined* to 2019/20. The ENR-BCI is a commonly used index that tracks the average cost of construction. Over the past 20 years, the ENR-BCI averaged 2.92%.

Cost + CPI – for some capital assets, the analysis uses the *Actual/Estimated Cost* and adjusts that cost by a Consumer Price Index (CPI) factor. The analysis applies a 2.79% annual CPI factor from the *Year Actual/Estimated Cost Determined* to 2019/20, consistent with the Consumer Price Index – All Urban Consumers – San Francisco-Oakland-San Jose, which has averaged 2.79% annually over the past 20 years.

Actual Cost – actual cost paid by the District.

Contractor or Vendor – bids, estimates or quotes from contractors or vendors.

MRG – replacement cost is based on MRG's experience in conducting similar analyses.

District – replacement cost is based on District staff's experience in acquiring capital assets or on the costs derived by the 2016 Capital Asset Analysis.

Current Replacement Cost – the estimated or actual cost to replace the capital asset in 2019/20.

Assets Not Included in the Capital Asset Replacement Schedule

The District has a capitalization standard of \$5,000, meaning that any asset purchase in an amount less than \$5,000 is expensed and not carried in the District's financial statements as an asset. The Capital Asset Replacement Schedule does not include existing assets with a current replacement cost of less than \$5,000. In addition, District staff identified certain capital assets that will not be replaced because of obsolescence or for other reasons.

Major building systems that will require eventual replacement are included in the Capital Asset Replacement Schedule (such as roofs and HVAC systems). However, complete replacement of the District's permanent buildings is not included in the schedule for several reasons:

- Only assets that depreciate are typically included in a replacement schedule; buildings do not necessarily depreciate over time, and may in fact appreciate in value.

- If District facilities were to be relocated in the future, there would be significant resale value attributable to the existing buildings and facilities, the value of which is not known at this time.
- Purchase or construction of any future replacement buildings would likely be financed by bond proceeds with debt service payments made in the years following the purchase or construction of the new facilities, rather than reserved in advance.

In addition, replacement of entire buildings is often planned well ahead, allowing time to set aside funds for acquisition or construction. At this time, we are not aware of any plan to relocate the District’s facilities within the time horizon of this study (20 years).

Exhibit C lists the 41 existing capital assets that have been excluded from the Capital Asset Replacement Schedule.

The District recently raised its capitalization standard from \$500 to the current \$5,000, thereby removing approximately 250 capital assets from the Capital Asset Replacement Schedule. As part of this report, the District requested that MRG determine the approximate impact to the District’s annual operating budget for funding the ongoing replacement of these 250 capital assets.

Using the capital asset descriptions, service life estimates, and replacement costs from the 2016 study, MRG estimated that the average annual impact on the current operating budget to fund the ongoing replacement of the 250 assets is approximately \$47,600. The estimated annual replacement costs are summarized by asset category in the table below:

Asset Category	Annual Budget Impact
Equipment – Computers/Electronic/Office	\$17,500
Equipment – Shop and Spray	\$12,000
Furniture	\$10,000
Equipment – Lab and Fish	\$5,000
Trailers	\$2,500
Equipment – Education/Public Outreach	\$600
Total	\$47,600

The District will need to include an average of \$47,600 in the operating budget each year for these former capital asset replacement expenditures.

V. CAPITAL ASSET FUNDING STRATEGIES

There are two primary capital asset funding strategies: the Pay-As-You-Go Strategy and the Reserve Fund Strategy. In this report, we review how each strategy works, as well as the strengths and weaknesses of each approach.

Pay-As-You-Go Funding Strategy

The Pay-As-You-Go Strategy estimates the cost of replacing each existing capital asset in the year in which it is expected to be replaced (when the useful life expires). Using this funding method, the annual budget each year would include the cost to replace the capital asset funded from annual operating revenues. In some years, capital replacement costs are relatively low, and this would not strain the operating budget. However, in some years, the cost to replace essential capital assets could be quite high, exceeding the ability to fund the cost from annual operating revenues.

For this analysis, the cost in the replacement year is “inflation-adjusted” by one of the two following factors:

- For major building systems, the replacement cost in the year in which the asset is expected to be replaced is based on the current replacement cost adjusted by an average annual 2.92% ENR-BCI factor from 2019/20 to the expected replacement year. For example, a capital asset with a current (2019/20) replacement cost of \$100,000 that is scheduled to be replaced in 2020/21 would have a 2020/21 replacement cost of \$103,000 (all replacement costs are rounded to the nearest thousand).
- For equipment and vehicles, the replacement cost in the year in which the capital asset is expected to be replaced is based on the current (2019/20) replacement cost, adjusted by an average annual 2.79% CPI factor from 2019/20 to the replacement year.

Exhibit D provides the Pay-As-You-Go Analysis. It presents the inflation-adjusted replacement cost for all District-owned capital assets, with 2019/20 as the base year replacement cost and continuing from 2020/21 through 2039/40, a 20-year period. Most existing capital assets will be replaced at least once during the 20-year period. Assets with relatively short useful lives may be replaced more than once during the 20-year period.

Exhibit D can be used as an annual budget tool, because it estimates the amount in inflation-adjusted dollars required in any given year to replace capital assets that have reached the end of their useful lives.

The Pay-As-You-Go Analysis indicates that the annual replacement cost (in inflation-adjusted dollars) would range from a low of \$17,000 in 2029/30 to a high of \$1,164,000 in 2036/37. Exhibit D identifies the replacement cost for each capital asset reaching the end of its useful life from 2020/21 through 2039/40. **Table 1**, below, provides a summary of annual budget requirements in inflation-adjusted dollars.

Table 1: Annual Budget Requirements, Inflation-Adjusted Dollars

Year	Capital Budget Requirement
2020/21	\$446,000
2021/22	\$75,000
2022/23	\$172,000

Year	Capital Budget Requirement
2023/24	\$353,000
2024/25	\$410,000
2025/26	\$720,000
2026/27	\$408,000
2027/28	\$442,000
2028/29	\$346,000
2029/30	\$17,000
2030/31	\$516,000
2031/32	\$260,000
2032/33	\$423,000
2033/34	\$137,000
2034/35	\$144,000
2035/36	\$274,000
2036/37	\$1,164,000
2037/38	\$174,000
2038/39	\$403,000
2039/40	\$383,000

⇒ MRG recommends that the District update the Capital Asset Replacement Schedule as it acquires new assets or replaces existing assets. Maintaining an accurate and up-to-date Capital Asset Replacement Schedule will make future analyses much simpler to perform.

⇒ MRG recommends that the District update the Pay-As-You-Go and Net Present Value Analyses at approximately five-year intervals to ensure that adequate funds are being set aside for capital asset replacement. Regular updates to the Pay-As-You-Go and Net Present Value Analyses will ensure that the District can adjust its funding needs as new assets are acquired, existing assets are replaced, economic conditions evolve, and asset replacements outside the initial 20-year period come due.

Five-Year Capital Asset Replacement Plan

Most municipal organizations and government-owned utilities prepare five-year capital improvement plans for the construction, acquisition, or replacement of capital assets. Capital improvement plans are critical, since municipalities and utilities are heavily capital asset dependent, with significant infrastructure both above and below ground. The replacement value of capital assets for small municipalities and utilities is often ten to one hundred million dollars or more. In comparison, the current replacement value of the District’s capital assets is approximately \$4 million, and the majority of its capital assets are equipment, such as vehicles, spray equipment, and laboratory equipment, which are relatively inexpensive to repair and replace.

District staff and MRG reviewed the Capital Asset Replacement Schedule with a tighter focus on the capital assets that will require replacement over the next five years. This detailed

review determined that the replacement schedule accurately represents the assets that will likely need to be replaced over the next five years and a separate schedule for the Five-Year Capital Asset Replacement Plan is not necessary. This is a result of the careful review and updating of the service life estimates for each asset that occurred as part of this update process.

The one noteworthy exception is the 1996 Chevrolet 1 Ton Service Truck, which the schedule calls for replacement in 2020/21. District staff believes that the vehicle has several years of service life yet and would likely not replace it until 2024/25. Three less expensive pieces of equipment, the Nuair safety cabinet (\$9,000 in 2020/21), the dual mixer mill (\$14,000 in 2021/22), and the laboratory negative pressure fan (\$29,000 in 2021/22) have the potential to be deferred into future years, as these types of equipment are typically not replaced until they fail, exhibit poor reliability or functionality, or until repair is infeasible due to cost or obsolescence.

Reserve Fund Strategy

The Reserve Fund Strategy starts with a net present value analysis to estimate the amount of money that would need to be set aside in a Capital Replacement Fund in 2020/21, which if invested at a given interest rate (also known as a discount rate) would provide sufficient funding to pay for the inflation-adjusted cost of replacing all capital assets scheduled to be replaced over the 20-year period.

The net present value analysis assumes that money in a Capital Replacement Fund would accrue interest income at an annual interest rate of 2.26%, which has been the average annual California State Treasurer Local Agency Investment Fund (LAIF) interest rate over the past 20 years. A lower interest rate (discount rate) would result in a higher net present value and a higher amount required to be set aside in 2020/21 to fully fund the replacement of all existing capital assets. Similarly, a higher interest rate (discount rate) would result in a lower net present value and a lower amount required to be set aside in 2020/21 to fully fund the replacement of all existing capital assets.

Based on the Capital Asset Replacement Schedule and an assumed interest rate/discount rate of 2.26%, the District would need to set aside \$5,737,436 in a Capital Replacement Fund in 2020/21. This amount would be invested and would accrue interest at an annual rate of 2.26% over the 20-year period, and would provide sufficient funding for the replacement of the District's existing capital assets, as shown in Table 1.

Currently, the District is not in a position to set aside sufficient cash to finance the replacement of its major capital assets for the next 20 years. Few agencies are able to fully fund their capital replacement program in advance and most, instead, create a replacement reserve that is funded over time. With this approach, the District would deposit an equal and predictable amount of funds each year into the reserve, then spend the reserve each year on scheduled capital asset replacement. Thus, in some years, the District would spend more from the fund than deposited, while in other years the deposits would exceed expenditures. The amount of each deposit is calculated to fully fund the program over the course of the 20-year period.

This method has two significant benefits. First, it allows the District to budget each year for a predictable deposit into the fund. Transfers from the general fund are the same every year, reducing unpredictable demands on limited general fund dollars. Second, since the cash is set aside for capital replacement, there is less pressure to defer replacements because of insufficient cash flow. This encourages good asset management practices by replacing assets when needed rather than holding them beyond their useful lives and spending operating funds on extraordinary repairs. While the practice of repeatedly repairing capital equipment can be cost effective in the short term, it does shift costs from the capital budget to the operating budget. Rather than repeatedly making repairs, assets should be replaced when they reach the end of their useful lives in order to minimize repair costs and help ensure the equipment is safe and reliable.

The District's current practice is to avoid the use of debt when replacing capital assets. This is an excellent strategy; however, there are times when long-term financing may be beneficial. For example, the State or other agency may offer below-market financing (or even 0% financing), or the asset cost may exceed available cash. If the District does choose to obtain long-term financing, the principal portion of the debt payments would be paid from the Capital Replacement Reserve Fund (as the value of the asset is included in the replacement program). The interest costs would be paid from other funding sources (typically the General Fund).

To maximize the benefit of the reserve fund, the District would make the annual contribution to the reserve fund early in each fiscal year to maximize interest earnings. Then, once or twice a year, the District would tally capital purchases in the General Fund and reimburse the General Fund from the reserve fund for these expenses.

When considering alternatives for a Reserve Fund Strategy, the District should consider three variables: the amount of the initial deposit, the amount of future annual contributions, and the fund balance at the end of the 20-year planning cycle.

The *initial contribution* should be sufficient to ensure that the reserve fund has adequate cash to support annual capital expenditures in the early years without cash flow deficits. The initial contribution also earns interest each year, reducing the required annual contributions.

The *annual contributions* should be an amount that can be funded by the General Fund and will be adequate to fully fund the Capital Asset Replacement Program over the 20-year period.

The *fund balance* at the end of the 20-year planning cycle will serve two purposes. First, during the 20-year period, it serves as a reserve in the event of a sudden and unplanned need to replace significant assets. Second, the ending balance will provide an initial deposit for the subsequent 20-year capital asset planning cycle. For example, the District may desire to maintain an amount equal to 25% of the current replacement cost of assets (approximately \$1,000,000 currently) as the ending fund balance/reserve. (This value could be changed periodically, resulting in adjustments to future annual contributions.)

Based on these variables, the District may consider two alternatives for a Reserve Fund Strategy.

- Alternative 1: Up Front Contribution of \$2,000,000 with Flat Annual Deposits and \$1,000,000 ending Fund Balance – The District could make an up-front contribution of \$2,000,000, followed by equal annual deposits of \$274,500 from 2021/22 through 2039/40 into the Capital Replacement Fund. This would leave an ending fund balance of approximately \$1,000,000 at the end of the planning period.
- Alternative 2: Up Front Contribution of \$1,000,000 with Flat Annual Deposits and \$1,000,000 ending Fund Balance - Alternately, the District could make an up-front contribution of \$1,000,000, followed by equal annual deposits of \$337,200 from 2021/22 through 2039/40 into the Capital Replacement Fund. This would leave an ending fund balance of approximately \$1,000,000 at the end of the planning period.

As with the Pay-As-You-go plan, any new capital assets that are added to the District’s inventory in the future would need to be added to the Capital Asset Replacement Schedule, and the Reserve Fund Strategy would need to be updated at regular intervals.

Cash Flow Analysis

Each of the two reserve fund strategies would result in different cash flow requirements in the Capital Replacement Fund. In each case, the District’s cash deposits would earn interest, assumed for this analysis at 2.26%. Additionally, the District would spend funds each year on capital assets, as shown in Table 1. The cash flow analysis, below, is provided to confirm that annual funding is adequate for the replacement of the existing capital assets, based on the assumptions described in this report. However, note that the analysis is interest rate sensitive. While the interest rates have averaged 2.26% over the past 20 years, rates fluctuate over time. If interest rates trend low for an extended period of time or do not achieve the long-term 2.26% average, the initial and on-going Capital Reserve Fund deposits could be insufficient to fully fund the replacement of all capital assets.

- *Alternative 1: Initial Deposit of \$2,000,000*

Under the first alternative, as presented in **Table 2** below, the District would make an initial deposit of \$2,000,000, followed by flat annual deposits of \$274,500 for the years 2021/22 through 2039/40 into the Capital Replacement Fund. This will leave a fund balance at the end of the 20-year period of approximately \$1,000,000. In this scenario, \$1,000,000 of the initial deposit would be spent over the course of the 20-year period as part of the Capital Asset Replacement Program.

Table 2: Alternative 1: Initial Deposit of \$2,000,000

Year	Beginning Fund Balance	Plus: Interest Income (2.26%)	Plus: Annual Deposits	Less: Capital Expense	Ending Fund Balance
2020/21	2,000,000	45,200	274,500	446,000	\$1,873,700
2021/22	1,837,700	42,346	274,500	75,000	\$2,115,546

Year	Beginning Fund Balance	Plus: Interest Income (2.26%)	Plus: Annual Deposits	Less: Capital Expense	Ending Fund Balance
2022/23	2,115,546	47,811	274,500	172,000	\$2,265,857
2023/24	2,265,857	51,208	274,500	353,000	\$2,238,565
2024/25	2,238,565	50,592	274,500	410,000	\$2,153,657
2025/26	2,153,657	48,673	274,500	720,000	\$1,756,830
2026/27	1,756,830	39,704	274,500	408,000	\$1,663,034
2027/28	1,663,034	37,585	274,500	442,000	\$1,533,118
2028/29	1,533,118	34,648	274,500	346,000	\$1,496,267
2029/30	1,496,267	33,816	274,500	17,000	\$1,787,583
2030/31	1,787,583	40,399	274,500	516,000	\$1,586,482
2031/32	1,586,482	35,854	274,500	260,000	\$1,636,836
2032/33	1,636,836	36,993	274,500	423,000	\$1,525,329
2033/34	1,525,329	34,472	274,500	137,000	\$1,697,301
2034/35	1,697,301	38,359	274,500	144,000	\$1,866,160
2035/36	1,866,160	42,175	274,500	274,000	\$1,908,836
2036/37	1,908,836	43,140	274,500	1,164,000	\$1,062,475
2037/38	1,062,475	24,012	274,500	174,000	\$1,186,987
2038/39	1,186,987	26,826	274,500	403,000	\$1,085,313
2039/40	1,085,313	24,528	274,500	383,000	\$1,001,341

- *Alternative 2: Initial Deposit of \$1,000,000*

Under the second alternative, presented in **Table 3** below, the District would make an initial deposit of \$1,000,000, followed by flat annual deposits of \$337,200 for the years 2021/22 through 2039/40 into the Capital Replacement Fund. This will leave a fund balance at the end of the 20-year period of approximately \$1,000,000. In this scenario, \$1,000,000 of the current Capital Asset Replacement Reserve would be used to fund other needs (discussed later in this report).

Table 3: Alternative 2: Initial Deposit of \$1,000,000

Year	Beginning Fund Balance	Deposits	Plus: Interest Income (2.26%)	Less: Capital Expense	Ending Fund Balance
2020/21	1,000,000	22,600	337,200	446,000	\$913,800
2021/22	913,800	20,652	337,200	75,000	\$1,196,652
2022/23	1,196,652	27,044	337,200	172,000	\$1,388,896
2023/24	1,388,896	31,389	337,200	353,000	\$1,404,485
2024/25	1,404,485	31,741	337,200	410,000	\$1,363,427
2025/26	1,363,427	30,813	337,200	720,000	\$1,011,440
2026/27	1,011,440	22,859	337,200	408,000	\$963,499
2027/28	963,499	21,775	337,200	442,000	\$880,474
2028/29	880,474	19,899	337,200	346,000	\$891,572
2029/30	891,572	20,150	337,200	17,000	\$1,231,922
2030/31	1,231,922	27,841	337,200	516,000	\$1,080,963
2031/32	1,080,963	24,430	337,200	260,000	\$1,182,593
2032/33	1,182,593	26,727	337,200	423,000	\$1,123,520

Year	Beginning Fund Balance	Deposits	Plus: Interest Income (2.26%)	Less: Capital Expense	Ending Fund Balance
2033/34	1,123,520	25,392	337,200	137,000	\$1,349,111
2034/35	1,349,111	30,490	337,200	144,000	\$1,572,801
2035/36	1,572,801	35,545	337,200	274,000	\$1,671,547
2036/37	1,671,547	37,777	337,200	1,164,000	\$882,523
2037/38	882,523	19,945	337,200	174,000	\$1,065,668
2038/39	1,065,668	24,084	337,200	403,000	\$1,023,953
2039/40	1,023,953	23,141	337,200	383,000	\$1,001,294

VI. LONG-TERM LIABILITIES

The District has two primary revenue sources representing 99% of its total fiscal resources: ad valorem property taxes and benefit assessment. While these revenues in recent years have been strong, both are real-estate based and, with all the District’s “eggs in one basket,” economic downturns could significantly impact these revenues. Additionally, 75% of the benefit assessment revenues have reached their legal maximum and will not increase in future years, which will attenuate District revenues.

The 2018 NBS report modeled both revenue and expense projections for the next 10 years using various inflation factors, and concluded that revenue growth will not keep up with expenses in future years. Because economic downturns cannot be accurately predicted, the NBS report assumed even growth in both revenues and expenses during the 10-year period. Should the economy slow, revenues may slow even more than projected in the NBS report.

Based on the NBS report, the District is rightfully interested in reconciling the strong fiscal results experienced in recent years with predicted future shortfalls. The District cannot easily nor quickly increase revenues; increased or new benefit assessments require considerable time to implement and must be supported by the electorate. The District desires to reduce both the risk of future budget variations and long-term obligations in order to fortify future budgets against revenue loss. Along with other actions already taken by the District, it wants to maximize the current positive cash flow to stabilize future finances.

Marin County Employees’ Retirement Association

The District provides retirement benefits through its participation in the Marin County Employees’ Retirement Association. The District provides benefits to employees in two groups: classic members receive a higher benefit than PEPRAs members hired in 2013 or later. The District incurs expenses each year to fund the cost of these health insurance benefits. The most recent actuarial study indicates that, as of June 30, 2018, the District has the following actuarial liability for future retirement benefit costs (for active employees only):

Classic members	\$12.472 million
PEPRA members	<u>\$0.070 million</u>
	\$12.542 million

The District has existing retirement fund assets of \$8.465 million and, for active members, is currently funded at a 67.5% rate, which is an improvement over the June 30, 2017 valuation, which indicated a funding rate of 52.3%. Although not calculated separately, information from MCERA indicates that, if all members (active and inactive) were included, the District would be funded at approximately 89.8% overall.

The amount that each participating employer pays each year is broken into two broad categories: Normal Cost (the amount of liability earned in the current year) and the amortized Unfunded Actuarial Liability (the amount needed to amortize the current liability). The District’s obligation for each of these components for the 2019/20 fiscal year, expressed as a percentage of payroll costs, is:

	Classic Members	PEPRA Members
Employer Normal Cost Rate		
(including administrative expenses)	16.71%	8.31%
Unfunded Actuarial Liability	<u>15.22%</u>	<u>15.22%</u>
Total Rate	31.93%	23.53%

For the 2019/20 fiscal year, these rates result in an annual budgeted cost of \$1,060,295.

In order to determine fund liability, actuaries must assume a certain level of future returns on assets, and one risk for retirement plans such as MCERA (and CalPERS) is that returns may not meet these assumptions. When that happens, the unfunded liability increases and employer contribution rates must be increased to cover those losses. The plan currently assumes a 7% rate of return on investments in the future.

While returns have varied over the last decade as a result of losses incurred from the “great recession,” returns for the year ended June 30, 2018 were 9.65% and 5.5% for the year ended June 30, 2019. Many factors impact investment earnings, and returns can vary significantly from one year to the next. In order to smooth out the impact of these fluctuations on contribution rates paid by employers, actuaries amortize investment losses over several years. MCERA has employed these techniques and, as these losses are fully realized over time, rates will decrease. MCERA actuaries predict contribution rates will decrease slowly by 2-3% over the next 12 years, then drop by another 9% in 2029.

The District’s contribution rate is calculated as part of a pool of many employers in MCERA. Because of this, the District’s contribution rate will not change significantly, even if the District makes a sizeable contribution to reduce its unfunded liability. MRG does not recommend the District make payments to MCERA in addition to the required contribution rates set by MCERA actuaries.

However, the District could consider options for reducing the burden of annual contribution rates in difficult fiscal years. These options include setting aside funds in District reserves or setting up an IRS Section 115 trust fund.

An increasing number of public agencies are investigating the use of an Internal Revenue Code section 115 trust to help them better manage the short-term costs and long-term liabilities

associated with pensions. A 115 trust allows the agency to segregate funds for the purpose of funding essential governmental functions, which could include pension contributions. Funds placed in a Section 115 trust are irrevocably committed for the essential government function(s) specified in the applicable trust agreement (e.g., pension obligations). Therefore, the monies held in such trusts can be invested in accordance with the rules governing such special purpose accounts. For example, 115 trust funds dedicated to satisfy pension obligations can be invested in the same manner as funds in a typical pension fund, rather than as part of the agency's general fund. Thus, by setting aside funds in a 115 trust, agencies can potentially (but not necessarily) earn a higher rate of return on monies set aside for future pension obligations.

Contributions to a Section 115 trust would be in addition to the required MCERA payments, and would not directly change the MCERA contribution rates. Typically, an agency would contribute funds to the trust when funds are available in excess of MCERA payments, then withdraw those funds in future years to make MCERA payments when normal revenues are insufficient to meet the MCERA obligation. In this way, the fund helps stabilize rates over time.

If the District wishes to consider a Section 115 trust, MRG recommends seeking counsel from qualified legal and investment advisors. The District currently uses CalPERS to manage its OPEB CERBT (California Employers' Retiree Benefit Trust) and 457 fund trusts. CalPERS also offers a Section 115 trust.

The District could also consider setting aside a reserve without the use of a Section 115 trust. In this case, the reserve would function similarly to a Section 115 trust, with the District adding funds when available, then using the funds to make a MCERA contribution when general revenues were not as strong. The funds would not be restricted by law for use on the pension obligation, and the rate of return would be the same as generated by other funds held by Marin County on behalf of the District.

⇒ While a Section 115 trust (or a locally held reserve) could be beneficial for the District, it may not provide significant benefit, and the District might consider additional OPEB contributions as a priority over a Section 115 trust for pension obligations. The primary benefit of a Section 115 trust is to smooth out fluctuations in contribution rates over time; because of the various smoothing techniques employed, MCERA rates are currently predicted to be stable or decrease over time. Additionally, the District's pension obligation is 89.8% funded overall (and 67.5% for active employees), compared to only 36% for the OPEB obligation. The District's overall unfunded pension obligation is \$5.1 million, compared to \$6 million for the OPEB obligation. MRG recommends focusing efforts on the OPEB obligation as a priority.

Other Post-Employment Benefits (OPEB)

The District provides retiree health insurance benefits to employees who retire from the District under certain circumstances. The benefit has been reduced or eliminated for

employees hired since 2009 and, as retirees age, the benefit costs will decrease and eventually the liability will be eliminated. However, in the meantime, the District incurs expenses each year to fund the cost of these health insurance benefits. The most recent actuarial study indicates that, as of July 1, 2019, the District has the following liability for future retiree health insurance costs:

Accrued liability for current and retired employees	\$9.383 million
Market value of plan assets	<u>\$3.368 million</u>
Unfunded Liability	\$6.015 million

The plan is currently funded at a 36% level, which represents a significant improvement over the July 1, 2017 valuation of only 7%. Since the 2017 valuation, the District made a one-time contribution of \$1.6 million, and insurance plan costs have decreased, resulting in an improved funding status.

The amount that should be paid each year is broken into two broad categories: the Normal Cost (the amount of liability earned in the current year) and the amortized Unfunded Actuarial Accrued Liability (the amount needed to amortize the current liability over a period of 19 years beginning in 2020/21). Together, these components make up the Actuarial Determined Contribution. The District’s current policy is to pay 100% of the Actuarial Determined Contribution each year.

As of July 1, 2019, the District’s annual payments are projected as follows:

Year	Normal Cost	UAAL Amortization	Total Minimum Payment
2019/2020	\$229,000	\$721,000	\$950,000
2020/2021	203,000	509,000	712,000
2021/2022	196,000	509,000	705,000
2022/2023	188,000	509,000	697,000
2023/2024	180,000	509,000	689,000
2024/2025	168,000	509,000	677,000
2025/2026	154,000	509,000	662,000
2026/2027	138,000	509,000	647,000
2027/2028	123,000	509,000	632,000
2028/2029	110,000	509,000	619,000

The Normal Cost decreases each year, reflecting the decrease in the number of covered employees (as the benefit phases out over time).

The District could reduce or eliminate the Unfunded Actuarial Accrued Liability, thus reducing or eliminating the annual payment (currently projected at \$509,000 per year) and making this cash available for other uses. For every \$1,000,000 paid on this liability, the District could reduce its annual payment by approximately \$90,000.

While the District’s current unfunded liability is \$6 million, this value changes with each actuarial analysis. Variables impacting the liability include investment returns and assumptions, insurance premiums, and other factors. For this reason, MRG does not

recommend making a payment sufficient to fully fund the current liability of \$6 million. Should the District fully fund the current liability, and premiums go down, for example, the District could have a “surplus” in the CERBT. These funds cannot be withdrawn once deposited. Instead, MRG recommends funding the plan to the 80-90% range, similar to the District’s overall MCERA unfunded liability.

⇒ MRG recommends the District bring the overall funded ratio of its OPEB liability to approximately 80-90% by making a payment of \$4.1 to \$5 million. This would reduce the annual required contributions by approximately \$370,000 - \$450,000. (Additional discussion follows in this report.)

Currently, the District invests the funds in the CERBT with CalPERS in an investment pool that has a relatively high long-term expected rate of return, but also a relatively high expected volatility. After making a substantial reduction in the OPEB liability, this volatility may be exaggerated and impact annual payment requirements.

⇒ MRG recommends the District consider changes to the CERBT investment strategy. As part of this analysis, MRG did consult with the District’s actuary. However, before making any final decision to make substantial payment to the CERBT, the District should consult with its actuary, Bartel Associates, to discuss in more detail the impacts of reducing the OPEB liability and changes in assumed investment returns.

VII. DISTRICT RESERVES AND TARGET FUND BALANCE POLICY

Consistent with good practice, the District maintains several reserves. Each of these are discussed, below.

Public Health Emergency Reserve Fund Balance. The District currently has \$1,970,100 set aside for this purpose, which is in compliance with the reserve requirement. According to the 2018 NBS report, this amount is based on the financial and operational experience of similar districts that have dealt with an infestation of invasive *Aedes* mosquitoes. The District’s public health emergency reserve fund requirement meets or exceeds the target reserve level of other comparable California mosquito districts.

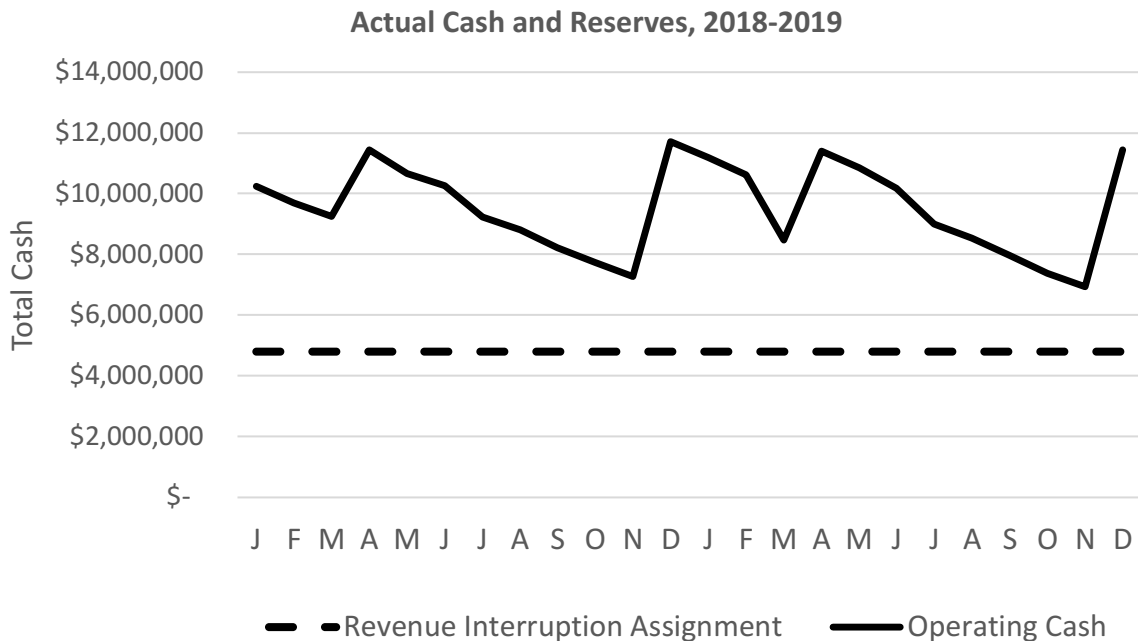
⇒ MRG does not recommend any changes to the Public Health Reserve Fund Balance.

Capital Replacement and Projects Target Fund Balance. The District currently has \$2.0 million set aside in this reserve. Rather than a fixed amount reserve, the District may consider using the updated Capital Asset Replacement Schedule (Exhibits B and D) as a basis for setting this reserve. For example, the District could set aside an amount equal to 25% of the total current replacement cost of assets (25% of \$4.246 million, or \$1.061 million). It is highly unlikely that a single disaster would destroy more than 25% of the District’s assets, and insurance should cover additional losses. The District’s most significant capital asset is the solar system, with a

current replacement cost of \$500,000. In the event of an emergency, a reserve of \$1 million could fully replace this asset, plus \$500,000 for replacement of additional assets. Alternatively, the District could set aside a certain number of years of planned annual contributions to the Capital Asset Replacement Fund. Under Alternative 2, for example, the District could set aside three years of contributions at \$337,200, for a total reserve of \$1,011,600. This would provide sufficient funding to maintain prudent investment in capital replacements should General Fund cash flow be insufficient to make the normal annual contributions.

⇒ Redefine the Capital Replacement and Projects Target Fund Balance to equal the lesser of 25% of the current replacement cost of all capital assets or three years of annual contributions to the capital asset funding program. The resulting \$1 million reserve would be used to fund the Capital Asset Replacement Program described as Alternative 2 on page 15 of this report. The excess \$1 million would be used to reduce the District’s OPEB unfunded liability.

General Fund Minimum Fund Balance to provide working capital during the “no-income” period and General Fund Minimum Fund Balance for Interruptions in Revenue Flow. The District currently has \$9.5 million set aside in these two reserves, an amount equal to 97% of the current annual operating expenses. The amount of actual cash the District has available in its operating fund for expenses varies throughout the year.



Note: the amount shown for December 2019 cash is estimated, as the actual cash balance is not yet available from the Marin County Treasurer.

The chart, above, shows how operating cash fluctuates during the year. The Revenue Interruption Assignment serves as a cash flow baseline, and the No-Income Period Assignment provides cash for operations during the months between receipt of tax revenues (April and December). In the last two years, total cash did not dip below \$6.9 million, approximately

143% of the Revenue Interruption Assignment. The graphs, above, do not include the cash in either the Capital or Public Health Emergency Reserve (currently an additional \$4 million). The District could reduce the General Fund Minimum Fund Balance to provide working capital during the “no-income” period and General Fund Minimum Fund Balance for Interruptions in Revenue Flow without risk of depleting cash.

The District’s financial statements reflect the following budgets and actual operating revenues and expenses for the last two fiscal years.

	<u>Year End June 30, 2018</u>	<u>Year End June 30, 2019</u>
Budgeted Revenues	\$8,703,777	\$8,907,948
Actual Revenues	\$9,340,834	\$9,851,186
Difference	\$637,057	\$943,238
Budgeted Expenses	\$8,807,935	\$10,576,102
Actual Expenses	\$7,725,527	\$9,865,597
Difference	\$1,082,408	\$710,505
Change in Fund Balance, Budget	\$(104,158)	\$(1,668,154)
Change in Fund Balance, Actual	\$1,579,089	\$(73,470)

The expenditures in the 2018/19 fiscal year include the one-time payment of \$1.6 million to the CERBT trust to reduce the OPEB unfunded liability. Excluding this one-time expense, operating results for the 2018/19 fiscal year would have resulted in an increase to the fund balance of approximately \$1.5 million.

The two fund balance assignments, for working capital during the “no income” period and for revenue interruption, are calculated based on current year budgeted amounts. As shown, prior year budgets have overstated actual cash needs, and, with reserves based on these estimates, the reserves are overstated as well. Prior year actual expenses might be a more accurate basis for determining needs for these two assignments. If the assignment values were calculated on the prior year actual operating expenses, for example, the total requirement would be \$8.3 million rather than \$9.7 million currently.

⇒ MRG recommends changing the baseline for the General Fund Minimum Fund Balance to provide working capital during the “no-income” period and the General Fund Minimum Fund Balance for Interruptions in Revenue Flow to reflect prior year actual expenses rather than the current year expense budget. This more accurately reflects actual cash flow needs.

⇒ MRG recommends changing the policy for the General Fund Minimum Fund Balance for Interruptions in Revenue Flow to include a range from 25% to 50% of prior year actual expenditures, less capital expenditures. This gives the District some flexibility in using cash for other purposes while still providing a prudent cash cushion for protection against unanticipated cash shortages.

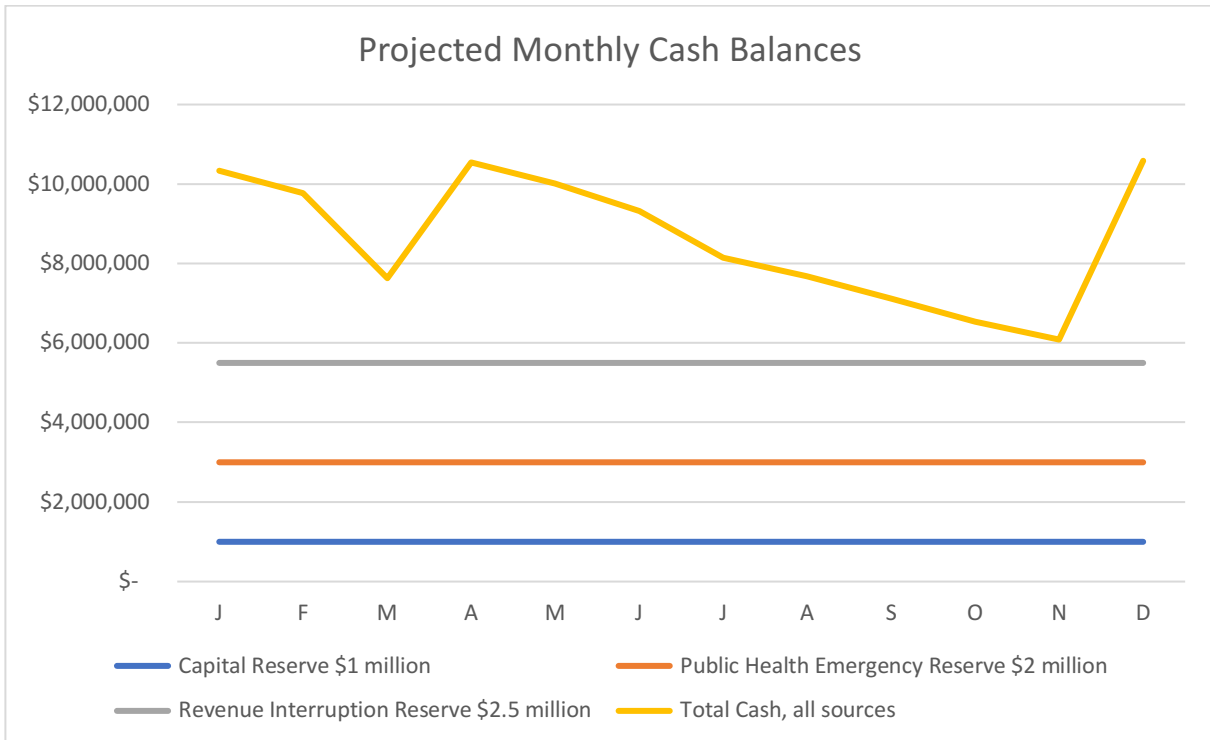
Total *current* reserves equal \$13.5 million, and actual cash on hand has ranged from \$10.9 to \$16.0 million in the last two years; the current reserves represent 133% of annual revenues. This is a significant level of reserves, and the District may want to consider a plan to substantially reduce the OPEB unfunded liability through a temporary reduction in reserves and/or use of increased cash from operating results at year end.

⇒ MRG recommends making a payment of \$4.1 to \$5 million to the CERBT, increasing the overall funding ratio for the OPEB liability to 80% - 90%. The payment could be made by taking \$1 million from the Capital Reserve and \$3.1 – \$4.0 million from current operating cash. This reduction in OPEB liability would reduce annual expenditures by \$370,000 - \$450,000, easing the burden on operating budgets in the future. The District could use cash from operating results for the next few years (which are likely to be similar to the most recent two-year period) to restore operating cash, if desired.

If the District chose to reduce the OPEB liability with a payment of \$5 million, at the top of the recommended range, the total projected available cash remains sufficient for operational needs and does not, at any time during the year, dip into to the General Fund Minimum Fund Balance for Interruptions in Revenue Flow.

The following chart reflects projected monthly operating fund cash and reserves for a typical year, assuming these changes to the District's reserves:

- Annual expenses are reduced by \$450,000 per year to reflect the reduced annual required payment to the CERBT;
- Increased annual expenses by \$300,000 for additional staffing recently approved by the Board;
- Operating fund cash is reduced by \$4 million for the one-time payment to the CERBT;
- The Capital Replacement and Projects reserve is reduced to \$1 million;
- The Public Health Emergency Reserve remains at \$2 million; and
- The General Fund Minimum Fund Balance for Interruption in Revenue Flow is reduced to 25% of prior year actual expenditures (excluding capital purchases).



This analysis assumes that the payment to substantially reduce the OPEB liability is made at once, and is reflected in every month in the graph, above. During the course of the year, the total cash available ranges from \$6.1 to \$10.6 million, and remains in excess of all reserve balances in every month. The District could consider phasing the payment over two years to reduce the impact on cash balances.

VIII. CONCLUSION AND SUMMARY OF RECOMMENDATIONS

The District has experienced strong operating results in the last several years. However, with minimal opportunity for growth in the District’s primary revenue sources, it faces an uncertain fiscal future. The District Board has established prudent policies for reserves and fund balances to help prepare the District for fiscal uncertainties.

MRG’s analysis suggests that the District can make some adjustments to the current Target Fund Balance Policy to better utilize available cash and reduce long-term liabilities without sacrificing cash flow stability. The table below summarizes our recommendations.

Reserve or Fund	Current Strategy	Proposed Strategy
Capital Asset Reserve	\$2 million fixed reserve.	Reduce the existing reserve to \$1 million. Use this \$1 million to fund a Capital Asset Replacement reserve fund strategy. The remaining \$1 million could be used to reduce the Districts OPEB unfunded liability. Update the Capital Asset Replacement Schedule as assets are removed or acquired. Every five years,

Reserve or Fund	Current Strategy	Proposed Strategy
		update the Net Present Value and Pay-As-You-Go Analyses.
Emergency Public Health Reserve	20% of current year budget for expenditures. Currently approximately \$2.0 million.	No recommended change.
General Fund Minimum Fund Balance to provide working capital during the “no-income” period	50% of current year budgeted expenditures. Currently \$4.9 million.	For both of these fund balances, change the calculation to reflect prior year actual expenditures rather than current year budgeted expenditures.
General Fund Minimum Fund Balance for Interruptions in Revenue Flow	50% of current year budgeted expenditures, less planned capital expenditures. Currently \$4.8 million.	<p>For the Revenue Interruption Fund Balance, change the policy to include a range from 25% to 50% of prior year actual expenditures, less capital expenditures, rather than 50%.</p> <p>Reduce the cash balance currently in these two fund balances by \$3.1 to \$4 million and, combined with \$1 million from the Capital Asset Reserve, substantially reduce the District’s OPEB unfunded liability.</p>
MCERA Pension Unfunded Liability	Make contributions as required by MCERA.	No recommended change at this time. The District may consider establishing a Section 115 trust or locally held reserve in the future.
OPEB Unfunded Liability	The District made a one-time payment of \$1.6 million in 2019. Otherwise, the strategy is to pay the annual Actuarially Determined Contribution (ADC) each year.	Using funds from the Capital Asset Reserve and General Fund Minimum Fund Balances, increase the funding ratio to 80% - 90% by making a payment of \$4.1 to \$5 million. Consider a change to the CERBT investment strategy. Consult with the District’s actuary for detailed analysis before making a final decision.

District staff members were gracious, helpful and responsive during our analysis, and we appreciate the opportunity to assist the District and offer recommendations. MRG will be glad to provide assistance to the District in the future should the need arise.

Exhibit A

POLICY TITLE: Fund Balance Classifications & Target Balances

NUMBER: 5060

5060 Purpose

It shall be the policy of the District to maintain fund balances adequate to address public health emergencies, contingencies, operating cash flow, future liabilities, replacement of equipment and facilities, and the like. Additionally, this policy establishes goals and provides guidance concerning the target level of fund balance in various categories to be maintained by the District to mitigate various financial risks that can occur from unforeseen revenue fluctuations, unanticipated expenditures, and similar circumstances. This Fund Balance Policy follows the guidelines set in the Governmental Accounting Standards Board (“GASB”) Statement No. 54, Fund Balance Reporting and Governmental Fund Type. No other policy or procedure shall supersede the authority and provisions of this policy.

Definitions

Fund balance is essentially the difference between total assets, total liabilities and deferred inflows/outflows or resources, reported in each governmental fund.

GASB Statement 54 distinguishes various categories of fund balance based on the relative strength of the constraints that control the purposes for which specified amounts can be spent.

Fund Balance Classifications

Listed below are the fund balance classifications beginning with the most restricted and constrained category, and progressing stepwise to the least restricted classification. Fund balance amounts will be reported in the following categories: Non-Spendable Fund Balance, Restricted Fund Balance, Committed Fund Balance, Assigned Fund Balance, and Unassigned Fund Balance. Further explanations of each category are provided below:

A. Non-Spendable Fund Balance

The non-spendable fund balance classification includes amounts that cannot be spent because they are either (a) not in a spendable form or (b) legally or contractually required to be maintained intact. The “non-spendable” classification includes items that are not expected to be converted to cash, for example, inventory items, notes receivable and prepaid amounts. It also includes the long term amount of loans and notes receivable. These amounts are shown in the District’s annual basic financial statements issued by the independent auditor.

B. Restricted Fund Balance

This classification includes amounts that can be spent only for the specific purposes stipulated by external parties or mechanisms such as creditors, grantors, contributors, laws, regulations or enabling legislation. Examples include grants or donations.

C. Committed Fund Balance

The Committed Fund Balance classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision making authority, which is the Board of Trustees. Committed amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action (for example a resolution) that it employed to previously commit those amounts. Committed Fund Balance amounts also incorporate contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

D. Assigned Fund Balance

The Assigned Fund Balance classification includes amounts that are constrained by the government's intent that they be used for specific purposes, but that are neither restricted nor committed. Such intent must be established by (a) the Board of Trustees as the governing body or (b) a body or official to which the governing body has delegated the authority to assign amounts to be used for specific purposes.

E. Unassigned Fund Balance

The Unassigned Fund Balance classification represents residual amounts not contained in any of the above four categories. This includes the residual balance in the General Fund. Unassigned amounts may be used for any legal purpose.

5060.10 Authority to Designate Funds

The responsibility for designating funds to specific classifications shall be as follows:

Committed Fund Balance – The Board of Trustees is the District's highest level of decision-making authority, and the formal action that is required to be taken to establish, modify, or rescind a fund balance commitment is a resolution approved by the Board.

Assigned Fund Balance – The Board of Trustees has designated the District Manager and the Financial Manager as the officials authorized to assign fund balances to a specific purpose, only as approved and governed by this fund balance policy.

5060.20 Order of Expenditure of Funds

When multiple categories of fund balance are available for expenditure (e.g., a project is being funded partly by a grant, funds set aside by the Board, and unassigned fund balance), the District shall expend funds in the order beginning with using the most restricted category before drawing progressively from categories with successively less restricted fund balances that are available for the intended purpose.

5060.30 District's Fund Structure and Classifications

The fund structure includes the General Fund & Capital Replacement Fund.

- A. The General Fund is the District's main operating fund and all financial resources, except those required to be accounted for in another fund, are accounted for in the General Fund.
- B. The Capital Replacement Fund is used to account for purchases of all capital items on a cost reimbursement basis. Examples include purchase of vehicles, large or costly equipment such as computer servers. The monetary threshold for an item to be considered a capital purchase shall be established from time to time by the Board of Trustees.

5060.40 Target Fund Balances

Under GASB 54, governments have the option to formally set aside unrestricted fund balance amounts for use in emergencies, revenue shortages, or to deal with a budget imbalance. The District has the authority to set aside such amounts by resolution of the Board. These set-aside amounts may be spent only if certain specific circumstances exist. Amounts maintained in the General Fund that are intended to provide financial stability shall be reported as committed or assigned. The notes to the District's annual financial statements shall disclose the authority for establishing the arrangement, the requirement for additions to the amount, the conditions under which amounts may be spent, and the balance.

The District Board of Trustees Fund Balance Policy establishes fiscal management and budget policies. This Fund Balance Policy establishes that the District will prudently maintain sufficient reserve funds to stabilize the District's fiscal base and enable it to deal with anticipated fluctuations in revenues and expenditures, provide for unanticipated expenditures of a non-recurring nature and to pay for any unexpected increases in materials or service delivery costs within the fiscal year.

A. Public Health Emergency Reserve Fund Balance: General Fund (Committed).

California's Health & Safety Code Section 2070 provides that the Board may divide the annual budget into categories, including a reserve for public health emergencies. The District maintains several emergency response plans, one example being an arbovirus response plan. Funds held in this reserve may be used only to deal with an emergency such as an outbreak or epidemic of vectorborne disease, or to take appropriate actions in the event of the discovery of invasive mosquito species within the District's service area. Examples of expenditures that may be necessary include, hiring additional personnel to conduct specialized or enhanced mosquito surveillance and/or control, materials, laboratory testing, aviation services, mapping and specialized consultant help, and reimbursing other mosquito districts for mutual aid provided. Recognizing that increasing the District's revenue stream is a cumbersome and time-consuming process, this fund balance is committed for the express purpose of financing whatever response is deemed necessary to deal with a public health emergency or serious threat.

The District commits twenty percent (20%) of its current budgeted annual expenditures to the Public Health Emergency Reserve Fund Balance.

B. Capital Replacement & Projects: Target Fund Balance (Committed).

The District shall maintain a target fund balance to reimburse the cost of the replacement of capital items such as vehicles, expensive laboratory equipment and other capital projects. The District has prepared a Capital Asset Valuation and Replacement Cost Study that analyzes and forecasts expenditures for the next twenty years. Capital expenditures are budgeted each year and paid from the operating fund, then reimbursed to the Capital Replacement & Projects Fund by means of a journal entry. Capital expenditures are expected to be much higher in some years than others, therefore the target fund balance is intended to a). act as a buffer to smooth expenditures from year to year b). provide a prudent reserve in the event of unforeseen or catastrophic eventualities, not all of which may be fully covered by insurance.

The District commits a target balance of two million dollars (\$2 million) to the Capital Replacement Fund.

C. General Fund Minimum Fund Balance: (1) to Provide Working Capital during the "No-Income Period" (Assigned).

The great majority of the District's revenues are collected by the two counties from the tax rolls and remitted to the District twice annually, at intervals of approximately six months. In order to continue operations between these widely spaced increments of revenue, the District must keep sufficient funds on hand to provide for the purchase of materials, services and to meet payroll. Additionally, even when the monies are deposited in the District's bank accounts, the reporting of these amounts to the District is often delayed by

several months due to workflow priorities at the County Department of Finance. The District cannot spend unrecognized revenues.

Therefore the District shall maintain a minimum target fund balance of six months of anticipated annual expenditures in the General Fund to cover these planned expenditures.

D. General Fund Minimum Fund Balance: (2) In case of Interruption in Revenue Flow (Assigned).

In addition to the working capital described above that is necessary to maintain operations between revenue increments, the District shall maintain a target fund balance sufficient to sustain the District's operations in the event of an interruption in revenue flows. To achieve this objective, it shall be policy of the District to maintain an unassigned fund balance in the general fund of not less than 50% of the authorized level of expenditures, less the planned amount of capital expenditures, for the fiscal year. If the unassigned fund balance falls below this goal, the District shall develop a restoration plan to achieve and maintain the target minimum fund balance.

E. Insurance Pool Contingency Target Fund Balance (Assigned)

As part of its participation in the Vector Control Joint Powers Agency (VCJPA) the District maintains a fund balance to defray the estimated cost of paying several self-insured retention (SIR) amounts. SIRs are similar in function to an insurance deductible and must be paid by the District in the event of a claim. VCJPA has published recommended fund balance targets in the Member Contingency Fund (MCF) to deal with a worst-case scenario involving multiple large claims. These funds are kept on deposit with VCJPA and professionally invested at the direction of the VCJPA Board. Member contingency funds are invested and managed in strict accordance with governmental fund investing requirements and restrictions. Historically the rate of return has equaled or bettered other relatively secure investment vehicles such as the Local Authority Investment Funds.

It shall be the District's policy to maintain funds on deposit with VCJPA in the Member Contingency Fund in an amount approximately equal to that recommended by the VCJPA, plus or minus twenty percent of the recommended value.

As an assigned fund balance designated for a specific purpose, under section **5060.10**, the Board authorizes the Manager and/or Financial Manager to disburse funds from the VCJPA Member Contingency Fund to the extent necessary to pay the District's SIR to VCJPA in connection with an emergency situation.

Board Approval:

March 13, 2019

Exhibit B

ASSET					CURRENT COST TO REPLACE ASSET		
Inventory Number	Year purchased and/or placed in service	Description	Service life	Estimated replacement cost as of...	...year of estimate (fiscal year ending June 30)	Source of cost data	
Facilities and Building Systems							
N/A	2001	Asphalt Pavement (2-inch Overlay)	30	\$170,000	2020	MRG Estimate	
N/A	2001	Fan - Laboratory (Negative Pressure)	20	\$25,000	2016	2016 MRG Report + ENR-BCI	
N/A	2001	Flooring - Carpet (Offices)	20	\$15,000	2020	2018 Flooring Project + ENR-BCI	
N/A	2001	HVAC - Admin Building Air Handling Unit	25	\$75,000	2020	2016 MRG Report + ENR-BCI	
N/A	2001	HVAC - Boiler	25	\$50,000	2020	MRG/District Staff Estimate	
N/A	2001	Landscaping	20	\$51,000	2020	Contractor Proposal	
N/A	2001	Roof - Admin Building (Comp Shingle)	30	\$120,000	2020	MRG Estimate	
N/A	2001	Roof - Shop Building (Metal)	25	\$73,000	2020	MRG Estimate	
N/A	2001	Roof - Vehicle Storage Building (Metal)	25	\$48,000	2020	MRG Estimate	
N/A	2001	Roof - Fish and Trailer Storage Building (Metal)	25	\$21,500	2020	MRG Estimate	
N/A	2001	Storage Shed (Tuff Shed)	30	\$7,000	2020	Tuff Shed Quote	
N/A	2002	Aboveground Fuel Tank (Convault)	30	\$45,000	2020	Convault/MRG Estimate	
N/A	2007	Fish Rearing Equipment (3 tanks and filter system)	20	\$7,408	2007	Actual Cost +CPI	
N/A	2008	Fuel Monitoring System	20	\$20,208	2008	Actual Cost +CPI	
N/A	2009	Projector System - Board Room	20	\$5,756	2009	Actual Cost +CPI	
N/A	2009	Work Stations - Tech Room	25	\$26,005	2009	Actual Cost +CPI	
N/A	2009	HVAC - IT Room	20	\$9,267	2009	Actual Cost + ENR-BCI	
N/A	2009	Work Stations - F/B Managers' Offices	25	\$12,710	2009	Actual Cost + CPI	
N/A	2009	Paint - Interior (Admin Building)	15	\$50,000	2020	MRG Estimate	
N/A	2011	Flooring- Lab (Sheet Vinyl)	20	\$15,000	2020	MRG Estimate	
N/A	2011	Flooring - Kitchen/Lab Hallwy/Tech Rm (Faux Wood)	15	\$52,000	2018	2018 Flooring Project + ENR-BCI	
N/A	2012	Solar Project (Including Inverter)	25	\$500,000	2020	MRG Estimate	
N/A	2012	Solar Project (Inverter only)	15	\$100,000	2016	2016 MRG Report + ENR-BCI	
N/A	2014	Water Cooler Fill Station	20	\$8,495	2014	Actual Cost + CPI	
N/A	2017	Asphalt Pavement (Seal Coat)	5	\$19,600	2017	Actual Cost + ENR-BCI	
N/A	2018	Flooring - Hallway/Lobby (Faux Wood)	20	\$24,841	2018	Actual Cost + ENR-BCI	
N/A	2018	Flooring - Boardroom (Carpet Tile)	15	\$11,377	2018	Actual Cost + ENR-BCI	
N/A	2019	Paint - Exterior (Admin Building)	15	\$30,000	2019	Actual Cost + ENR-BCI	
N/A	2020	HVAC - Chiller	20	\$75,000	2020	Actual Cost	
Vehicles							
2/432	1996	Chevy 1 Ton Service Truck	25	\$62,000	2020	Ford/MRG Estimate	
7/444/563	1999	Ford Ranger 4x4	25	\$35,000	2020	True Car Estimate	
12/446	1999	Ford Van	20	\$33,000	2020	True Car Estimate	
1761/6A	2004	Ford F550 4x4	25	\$50,000	2020	Ford/MRG Estimate	
1768/13A	2006	2007 Ford F250 4x4	12	\$40,000	2020	True Car Estimate	

ASSET				CURRENT COST TO REPLACE ASSET			
Inventory Number	Year purchased and/or placed in service		Description	Service life	Estimated replacement cost as of...	...year of estimate (fiscal year ending June 30)	Source of cost data
	Year purchased	and/or placed in service					
1768/14A	2006		2007 Ford F250 4x4	12	\$40,000	2020	True Car Estimate
1772/15A	2006		2007 Ford F550 4x4	25	\$50,000	2020	Ford/MRG Estimate
1774/17A	2007		2007 Ford Explorer	12	\$39,000	2020	True Car Estimate
19A/1775	2008		2009 Ford F250 4x4	12	\$40,000	2020	True Car Estimate
18A/1776	2008		2009 Ford F250 4x4	12	\$40,000	2020	True Car Estimate
20A/1777	2008		Ford Explorer	12	\$39,000	2020	True Car Estimate
1779/22A	2011		2011 Ford F350 4x4	15	\$40,000	2020	True Car Estimate
1780/23A	2011		2011 Ford F250 4x2	12	\$40,000	2020	True Car Estimate
1781/24A	2011		2011 Ford F250 4x2	12	\$40,000	2020	True Car Estimate
1782/25A	2012		Chevrolet Traverse	12	\$36,000	2020	True Car Estimate
1783/26A	2012		Chevrolet 1500 4x4	12	\$35,000	2020	True Car Estimate
1784/27A	2012		Chevrolet 1500 4x4	12	\$35,000	2020	True Car Estimate
1786/29A	2013		2013 GMC Sierra 2500 4x4	12	\$40,000	2020	True Car Estimate
1787/1B	2013		2013 GMC Sierra 2500 4x4	12	\$40,000	2020	True Car Estimate
1788/2B	2013		2013 GMC Sierra 2500 4x4	12	\$40,000	2020	True Car Estimate
1789/3B	2013		2013 GMC Sierra 2500 4x4	12	\$40,000	2020	True Car Estimate
1790/4B	2014		2013 Chevrolet 2500 HD 4x4	12	\$40,000	2020	True Car Estimate
1791/5B	2014		2014 Chevrolet 2500 HD 4X4	12	\$40,000	2020	True Car Estimate
1792/6B	2015		GMC Sierra 2500 HD 4x4	12	\$40,000	2020	True Car Estimate
1793/7B	2015		GMC Sierra 2500 HD 4x4	12	\$40,000	2020	True Car Estimate
1794/8B	2015		GMC Sierra 2500 HD 4x4	12	\$40,000	2020	True Car Estimate
1795/9B	2016		2016 GMC Sierra 2500 HD 4x4	12	\$40,000	2020	True Car Estimate
1796/10B	2016		2016 GMC Sierra 2500 HD 4x4	12	\$40,000	2020	True Car Estimate
1797/11B	2016		2016 GMC Sierra 2500 HD 4x4	12	\$40,000	2020	True Car Estimate
1798/12B	2019		2019 Chevrolet Bolt	10	\$41,498	2019	Actual Cost + CPI
<u>Vehicles - Off Road/Specialty</u>							
514/44	1988		Komatsu Excavator	40	\$36,098	1988	Actual Cost + CPI
519/49	1994		Lite-foot	35	\$32,040	1994	Actual Cost + CPI
525	2000		Gator ATV	25	\$7,995	2000	Actual Cost + CPI
526/45	2000		TCM Forklift	25	\$12,363	2000	Actual Cost + CPI
530/34	2002		ARGO Conquest	20	\$30,000	2019	Argo Quote + CPI
532/48	2003		Diamondback Airboat w/trailer	20	\$47,000	2016	2016 MRG Report + CPI
1900/39	2004		Argo Conquest	20	\$30,000	2019	Argo Quote + CPI
1901/40	2004		Argo Conquest	20	\$30,000	2019	Argo Quote + CPI
1903/30	2004		Argo Avenger	20	\$30,000	2019	Argo Quote + CPI
1904/33	2004		Argo Avenger	20	\$30,000	2019	Argo Quote + CPI
1908/31	2005		Argo Conquest	20	\$30,000	2019	Argo Quote + CPI

ASSET				CURRENT COST TO REPLACE ASSET		
Inventory Number	Year purchased and/or placed in service	Description	Service life	Estimated replacement cost as of...	...year of estimate (fiscal year ending June 30)	Source of cost data
1909/32	2006	Argo Avenger	20	\$30,000	2019	Argo Quote + CPI
1910	2006	John Deere 3720 Tractor	30	\$28,115	2006	Actual Cost + CPI
1915/30A	2007	Argo Avenger	20	\$31,000	2019	Argo Quote + CPI
31A/1917	2008	Argo Avenger	20	\$31,000	2019	Argo Quote + CPI
68/2611	2008	Tilt Trailer	25	\$13,442	2008	Actual Cost + CPI
1920/46A	2010	Grizzly Boat w/trailer	25	\$12,313	2010	Actual Cost + CPI
1921/37A	2010	2009 Kawasaki 650 ATV	15	\$8,117	2010	Actual Cost + CPI
1922/38A	2010	2010 Kawasaki 650 ATV	15	\$8,732	2010	Actual Cost + CPI
1923/35A	2012	2012 Kawasaki KVF360ACF ATV	15	\$6,800	2012	Actual Cost + CPI
1924/36A	2012	2012 Kawasaki KVF360ACF ATV	15	\$6,800	2012	Actual Cost + CPI
1925	2013	Rotary Mower	20	\$15,696	2014	Actual Cost + CPI
1927/36B	2017	Honda 1000 EPS UTV	15	\$17,729	2017	Actual Cost + CPI
1929	2017	GPS for Air Boat	8	\$8,559	2017	Actual Cost + CPI
37B	2017	Kawasaki 750 ATV	15	\$10,000	2017	Actual Cost + CPI
<u>Shop and Spray Equipment</u>						
363	1998	Beecomist - Replace with Promist Dura Fogger	20	\$17,562	2019	Actual Cost + CPI
364	1998	Beecomist - Replace with Promist Dura Fogger	20	\$17,562	2019	Actual Cost + CPI
365	2000	Beecomist - Replace with Promist Dura Fogger	20	\$17,562	2019	Actual Cost + CPI
N/A	2001	Hotsy Pressure Washing System	25	\$18,000	2020	Hotsy
1601	2004	Twin Reel Intelli Sprayer	25	\$8,977	2004	Actual Cost + CPI
1612	2004	Twin Reel Intelli Sprayer w/50 gal. Tank	25	\$11,163	2004	Actual Cost + CPI
1617	2005	Aboveground Hoist	25	\$8,427	2005	Actual Cost + CPI
2201	2007	Shop Workstation	25	\$35,261	2007	Actual Cost + CPI
1635	2017	Promist Dura Fogger	20	\$17,562	2019	Actual Cost + CPI
1638	2019	Promist Dura Fogger	20	\$17,562	2019	Actual Cost + CPI
<u>Equipment - Lab</u>						
851	2001	Environmental Chamber	22	\$18,900	2020	Geneva Scientific
853	2001	Nuaire Safety Cabinet	20	\$8,900	2020	discsci.com
865	2003	Environmental Chamber	22	\$18,600	2020	Geneva Scientific
2103	2004	Environmental Chamber Model 1-36VL	22	\$18,600	2020	Geneva Scientific
2104	2005	Environmental Chamber Model 136VLC9	22	\$18,900	2020	Geneva Scientific
2105	2005	Centrifuge (refrigerated)	20	\$17,500	2020	Fisher Scientific
2116	2006	Centrifuge	20	\$12,100	2020	Fisher Scientific
2117	2006	RT-PCR System	20	\$57,200	2020	Thermo Fisher
2127	2007	Dual Mixer Mill	15	\$13,000	2020	thomassci.com
2138	2008	MagMax - Replace with KingFisher Flex System	20	\$67,700	2020	Thermo Fisher

ASSET					CURRENT COST TO REPLACE ASSET		
Inventory Number	Year purchased and/or placed in service	Description	Service life	Estimated replacment cost as of...	...year of estimate (fiscal year ending June 30)	Source of cost data	
2140	2009	Leica M125 Microscope	20	\$16,000	2020	JH Technologies	
2141	2009	Leica M125 Microscope	20	\$16,000	2020	JH Technologies	
2142	2009	Leica M125 Microscope	20	\$16,000	2020	JH Technologies	
2143	2009	Leica M80 Microscope	20	\$11,600	2020	JH Technologies	
2146	2012	Leica M125 Microscope	20	\$16,000	2020	JH Technologies	
2147	2012	Environmental Chamber	20	\$19,200	2020	Geneva Scientific	
2150	2013	Ultra-low Temperature Freezer	15	\$19,400	2020	Laboratory Equipment Company	
Equipment - Computer and Electronic							
3183	2015	Enhanced Video Security Camera System	8	\$7,095	2015	Actual Cost + CPI	
3188	2015	HP Smart Buy Server	5	\$5,500	2020	District Estimate	
NA	2016	Boardroom Audio System (24 microphones)	10	\$21,766	2017	Actual Cost + CPI	
NA	2017	Exchange Server	5	\$5,500	2020	District Estimate	

Exhibit C

Inventory Number	Year purchased and/or placed in service	Description	Reason
<u>Facilities and Building Systems</u>			
N/A	2001	Cotati Facility Buildings	Buildings excluded (see report text)
<u>Vehicles</u>			
4/442	1999	Ford Ranger 4x2	Will not be replaced
8/445/564	1999	Ford Ranger 4x2	Will not be replaced
6/449	2000	Chevrolet C3500	Will not be replaced
10/450	2001	Ford Explorer	Will not be replaced
17/455	2002	Ford F150 4x4	Will not be replaced
1A/456	2002	Ford F150 4x4	Will not be replaced
1751/19	2004	Ford F150 4x4	Will not be replaced
1752/20	2004	Ford F150 4x4	Will not be replaced
1757/2A	2004	Ford F250 4x4	Will not be replaced
1758/3A	2004	Ford F250 4x4	Will not be replaced
1759/4A	2004	Ford F250 4x2	Will not be replaced
1762/7A	2005	Ford F150 4x4	Will not be replaced
1763/8A	2005	Ford F250 4x4	Will not be replaced
1766/11A	2005	2005 Chevrolet 2500 4x2	Will not be replaced
1767/12A	2005	2005 Chevrolet 2500 4x2	Will not be replaced
1770/13	2006	2007 Ford F250 4x4	Will not be replaced
1771/15	2006	2007 Ford F250 4x4	Will not be replaced
21A/1778	2007	Chevrolet 4500 4x2	Will not be replaced
1785/28A	2012	Toyota Prius	Will not be replaced
<u>Vehicles - Off Road/Specialty</u>			
513/41	1983	Spryte 1200	Will not be replaced
524/37	1998	Kawasaki ATV	Will not be replaced
1902/42	2004	GO4 (catch basin applicator)	Will not be replaced
1905/43	2005	Kawasaki 650 ATV	Will not be replaced
1912	2006	Piston Bully	Will not be replaced
1913	2006	Ditcher	Will not be replaced
1914	2006	Flail Mower	Will not be replaced
N/A	2008	Pump for Komatsu	Will not be replaced
<u>Shop and Spray Equipment</u>			
430/183	2002	Electra Mist	Will not be replaced
431/184	2002	Electra Mist	Will not be replaced
1622	2006	Mozzi Fogger	Will not be replaced
44A/2305	2008	40' Portable Lift	Will not be replaced
<u>Equipment - Lab</u>			
844/900	1998	Nikon SM2-U Microscope	Will not be replaced
858	2001	Leica DML/HCS Microscope	Will not be replaced
2123	2006	6100 Prepstation	Will not be replaced
2131	2007	Chicken Coop	Will not be replaced
2144	2009	Panoramic Digital Microscope	Will not be replaced
<u>Equipment - Computer and Electronic</u>			
1279	1988	AS400 IBM Server	Will not be replaced
1076	2003	AS 400 Main Frame	Will not be replaced
2450	2004	Printer/Plotter for large scale maps	Will not be replaced
3152	2012	AS400 Upgrade	Will not be replaced

Exhibit D

ASSET			COST TO REPLACE AT END OF USEFUL LIFE														
Inventory Number	Year purchased and/or placed in service	Description	Service life	Inflator rate	2020 replacement cost	replaced (fiscal year ending June 30) (first)	Note	Inflated replacement cost at fiscal year end June 30									
								2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Facilities and Building Systems																	
N/A	2001	Asphalt Pavement (2-inch Overlay)	30	2.92%	\$170,000	2031										\$233,000	
N/A	2001	Fan - Laboratory (Negative Pressure)	20	2.92%	\$28,000	2021		\$29,000									
N/A	2001	Flooring - Carpet (Offices)	20	2.92%	\$15,000	2021		\$15,000									
N/A	2001	HVAC - Admin Building Air Handling Unit	25	2.92%	\$75,000	2026							\$89,000				
N/A	2001	HVAC - Boiler	25	2.92%	\$50,000	2026							\$59,000				
N/A	2001	Landscaping	20	2.92%	\$51,000	2021	1	\$52,000									
N/A	2001	Roof - Admin Building (Comp Shingle)	30	2.92%	\$120,000	2031										\$165,000	
N/A	2001	Roof - Shop Building (Metal)	25	2.92%	\$73,000	2026								\$87,000			
N/A	2001	Roof - Vehicle Storage Building (Metal)	25	2.92%	\$48,000	2026								\$57,000			
N/A	2001	Roof - Fish and Trailer Storage Building (Metal)	25	2.92%	\$22,000	2026								\$26,000			
N/A	2001	Storage Shed (Tuff Shed)	30	2.92%	\$7,000	2031										\$10,000	
N/A	2002	Aboveground Fuel Tank (Convault)	30	2.92%	\$45,000	2032											
N/A	2007	Fish Rearing Equipment (3 tanks and filter system)	20	2.79%	\$11,000	2027							\$13,000				
N/A	2008	Fuel Monitoring System	20	2.79%	\$28,000	2028								\$35,000			
N/A	2009	Projector System - Board Room	20	2.79%	\$8,000	2029									\$10,000		
N/A	2009	Work Stations - Tech Room	25	2.79%	\$35,000	2034											
N/A	2009	HVAC - IT Room	20	2.92%	\$13,000	2029									\$17,000		
N/A	2009	Work Stations - F/B Managers' Offices	25	2.79%	\$17,000	2034											
N/A	2009	Paint - Interior (Admin Building)	15	2.92%	\$50,000	2024				\$56,000							
N/A	2011	Flooring - Lab (Sheet Vinyl)	20	2.92%	\$15,000	2031										\$21,000	
N/A	2011	Flooring - Kitchen/Lab Hallwy/Tech Rm (Faux Wood)	15	2.92%	\$55,000	2026								\$65,000			
N/A	2012	Solar Project (Including Inverter)	25	2.92%	\$500,000	2037											
N/A	2012	Solar Project (Inverter only)	15	2.92%	\$112,000	2027								\$137,000			
N/A	2014	Water Cooler Fill Station	20	2.79%	\$10,000	2034											
N/A	2017	Asphalt Pavement (Seal Coat)	5	2.92%	\$21,000	2022			\$22,000					\$25,000			
N/A	2018	Flooring - Hallway/Lobby (Faux Wood)	20	2.92%	\$26,000	2038											
N/A	2018	Flooring - Boardroom (Carpet Tile)	15	2.92%	\$12,000	2033											
N/A	2019	Paint - Exterior (Admin Building)	15	2.92%	\$31,000	2034											
N/A	2020	HVAC - Chiller	20	2.92%	\$75,000	2040											
Vehicles																	
2/432	1996	Chevy 1 Ton Service Truck	25	2.79%	\$62,000	2021	2						\$71,000				
7/444/563	1999	Ford Ranger 4x4	25	2.79%	\$35,000	2024					\$39,000						
12/446	1999	Ford Van	20	2.79%	\$33,000	2021	1	\$34,000									
1761/6A	2004	Ford F550 4x4	25	2.79%	\$50,000	2029									\$64,000		
1768/13A	2006	2007 Ford F250 4x4	12	2.79%	\$40,000	2021	1	\$41,000									
1768/14A	2006	2007 Ford F250 4x4	12	2.79%	\$40,000	2021	4	\$41,000									
1772/15A	2006	2007 Ford F550 4x4	25	2.79%	\$50,000	2031										\$68,000	
1774/17A	2007	2007 Ford Explorer	12	2.79%	\$39,000	2021	1,3	\$40,000									
19A/1775	2008	2009 Ford F250 4x4	12	2.79%	\$40,000	2021	4	\$41,000									
18A/1776	2008	2009 Ford F250 4x4	12	2.79%	\$40,000	2021	4	\$41,000									
20A/1777	2008	Ford Explorer	12	2.79%	\$39,000	2021	4	\$40,000									
1779/22A	2011	2011 Ford F350 4x4	15	2.79%	\$40,000	2026							\$47,000				
1780/23A	2011	2011 Ford F250 4x2	12	2.79%	\$40,000	2023				\$43,000							
1781/24A	2011	2011 Ford F250 4x2	12	2.79%	\$40,000	2023				\$43,000							
1782/25A	2012	Chevrolet Traverse	12	2.79%	\$36,000	2024						\$40,000					
1783/26A	2012	Chevrolet 1500 4x4	12	2.79%	\$35,000	2024						\$39,000					
1784/27A	2012	Chevrolet 1500 4x4	12	2.79%	\$35,000	2024						\$39,000					
1786/29A	2013	2013 GMC Sierra 2500 4x4	12	2.79%	\$40,000	2025						\$46,000					
1787/1B	2013	2013 GMC Sierra 2500 4x4	12	2.79%	\$40,000	2025						\$46,000					

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Inventory Number	Year purchased and/or placed in service	Description	Service life	Inflator rate	2020 replacement cost	replaced (fiscal year ending June 30) (first)	Note	Inflated replacement cost at fiscal year end June 30																
								2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031						
851	2001	Environmental Chamber	22	2.79%	\$19,000	2023					\$21,000													
853	2001	Nuair Safety Cabinet	20	2.79%	\$9,000	2021		\$9,000																
865	2003	Environmental Chamber	22	2.79%	\$19,000	2025						\$22,000												
2103	2004	Environmental Chamber Model 1-36VL	22	2.79%	\$19,000	2026									\$22,000									
2104	2005	Environmental Chamber Model 136VLC9	22	2.79%	\$19,000	2027																\$23,000		
2105	2005	Centrifuge (refrigerated)	20	2.79%	\$18,000	2025						\$21,000												
2116	2006	Centrifuge	20	2.79%	\$12,000	2026																\$14,000		
2117	2006	RT-PCR System	20	2.79%	\$57,000	2026																\$67,000		
2127	2007	Dual Mixer Mill	15	2.79%	\$13,000	2022				\$14,000														
2138	2008	MagMax - Replace with KingFisher Flex System	20	2.79%	\$68,000	2028																\$85,000		
2140	2009	Leica M125 Microscope	20	2.79%	\$16,000	2029																	\$20,000	
2141	2009	Leica M125 Microscope	20	2.79%	\$16,000	2029																	\$20,000	
2142	2009	Leica M125 Microscope	20	2.79%	\$16,000	2029																	\$20,000	
2143	2009	Leica M80 Microscope	20	2.79%	\$12,000	2029																	\$15,000	
2146	2012	Leica M125 Microscope	20	2.79%	\$16,000	2032																		
2147	2012	Environmental Chamber	20	2.79%	\$19,000	2032																		
2150	2013	Ultra-low Temperature Freezer	15	2.79%	\$19,000	2028																\$24,000		
Equipment - Computer and Electronic																								
3183	2015	Enhanced Video Security Camera System	8	2.79%	\$8,000	2023					\$9,000													\$11,000
3188	2015	HP Smart Buy Server	5	2.79%	\$6,000	2021	4	\$6,000							\$7,000									\$8,000
NA	2016	Boardroom Audio System (24 microphones)	10	2.79%	\$24,000	2026									\$28,000									
NA	2017	Exchange Server	5	2.79%	\$6,000	2022				\$6,000														\$7,000
					\$4,246,000			\$446,000	\$75,000	\$172,000	\$353,000	\$410,000	\$720,000	\$408,000	\$442,000	\$346,000	\$17,000	\$516,000						

Note 1 Currently planned for replacement in the 2019/2020 fiscal year.

Note 2 Although the truck will reach the end of its planned service life in 2021, staff does not plan to replace it until 2025.

Note 3 Will be replaced with an electric car.

Note 4 Asset was scheduled for replacement in the 2019/2020 or prior fiscal year but is not yet replaced. For this analysis, these are carried forward into the

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Inventory Number	Year purchased and/or placed in service	Description	Inflated replacement cost at fiscal year end June 30								
			2032	2033	2034	2035	2036	2037	2038	2039	2040
Facilities and Building Systems											
N/A	2001	Asphalt Pavement (2-inch Overlay)									
N/A	2001	Fan - Laboratory (Negative Pressure)									
N/A	2001	Flooring - Carpet (Offices)									
N/A	2001	HVAC - Admin Building Air Handling Unit									
N/A	2001	HVAC - Boiler									
N/A	2001	Landscaping									
N/A	2001	Roof - Admin Building (Comp Shingle)									
N/A	2001	Roof - Shop Building (Metal)									
N/A	2001	Roof - Vehicle Storage Building (Metal)									
N/A	2001	Roof - Fish and Trailer Storage Building (Metal)									
N/A	2001	Storage Shed (Tuff Shed)									
N/A	2002	Aboveground Fuel Tank (Convault)	\$64,000								
N/A	2007	Fish Rearing Equipment (3 tanks and filter system)									
N/A	2008	Fuel Monitoring System									
N/A	2009	Projector System - Board Room									
N/A	2009	Work Stations - Tech Room			\$51,000						
N/A	2009	HVAC - IT Room									
N/A	2009	Work Stations - F/B Managers' Offices			\$25,000						
N/A	2009	Paint - Interior (Admin Building)							\$86,000		
N/A	2011	Flooring- Lab (Sheet Vinyl)									
N/A	2011	Flooring - Kitchen/Lab Hallwy/Tech Rm (Faux Wood)									
N/A	2012	Solar Project (Including Inverter)						\$816,000			
N/A	2012	Solar Project (Inverter only)									
N/A	2014	Water Cooler Fill Station			\$15,000						
N/A	2017	Asphalt Pavement (Seal Coat)	\$29,000					\$33,000			
N/A	2018	Flooring - Hallway/Lobby (Faux Wood)							\$44,000		
N/A	2018	Flooring - Boardroom (Carpet Tile)			\$17,000						
N/A	2019	Paint - Exterior (Admin Building)			\$46,000						
N/A	2020	HVAC - Chiller								\$133,000	
Vehicles											
2/432	1996	Chevy 1 Ton Service Truck									
7/444/563	1999	Ford Ranger 4x4									
12/446	1999	Ford Van									
1761/6A	2004	Ford F550 4x4									
1768/13A	2006	2007 Ford F250 4x4		\$57,000							
1768/14A	2006	2007 Ford F250 4x4		\$57,000							
1772/15A	2006	2007 Ford F550 4x4									
1774/17A	2007	2007 Ford Explorer		\$56,000							
19A/1775	2008	2009 Ford F250 4x4		\$57,000							
18A/1776	2008	2009 Ford F250 4x4		\$57,000							
20A/1777	2008	Ford Explorer		\$56,000							
1779/22A	2011	2011 Ford F350 4x4									
1780/23A	2011	2011 Ford F250 4x2				\$60,000					
1781/24A	2011	2011 Ford F250 4x2				\$60,000					
1782/25A	2012	Chevrolet Traverse					\$56,000				
1783/26A	2012	Chevrolet 1500 4x4					\$54,000				
1784/27A	2012	Chevrolet 1500 4x4					\$54,000				
1786/29A	2013	2013 GMC Sierra 2500 4x4						\$64,000			
1787/1B	2013	2013 GMC Sierra 2500 4x4						\$64,000			

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Inventory Number	Year purchased and/or placed in service	Description	Inflated replacement cost at fiscal year end June 30								
			2032	2033	2034	2035	2036	2037	2038	2039	2040
1788/2B	2013	2013 GMC Sierra 2500 4x4							\$64,000		
1789/3B	2013	2013 GMC Sierra 2500 4x4							\$64,000		
1790/4B	2014	2013 Chevrolet 2500 HD 4x4							\$65,000		
1791/5B	2014	2014 Chevrolet 2500 HD 4X4							\$65,000		
1792/6B	2015	GMC Sierra 2500 HD 4x4								\$67,000	
1793/7B	2015	GMC Sierra 2500 HD 4x4								\$67,000	
1794/8B	2015	GMC Sierra 2500 HD 4x4								\$67,000	
1795/9B	2016	2016 GMC Sierra 2500 HD 4x4									\$70,000
1796/10B	2016	2016 GMC Sierra 2500 HD 4x4									\$70,000
1797/11B	2016	2016 GMC Sierra 2500 HD 4x4									\$70,000
1798/12B	2019	2019 Chevrolet Bolt								\$72,000	
Vehicles - Off Road/Specialty											
514/44	1988	Komatsu Excavator									
519/49	1994	Lite-foot									
525	2000	Gator ATV									
526/45	2000	TCM Forklift									
530/34	2002	ARGO Conquest									
532/48	2003	Diamondback Airboat w/trailer									
1900/39	2004	Argo Conquest									
1901/40	2004	Argo Conquest									
1903/30	2004	Argo Avenger									
1904/33	2004	Argo Avenger									
1908/31	2005	Argo Conquest									
1909/32	2006	Argo Avenger									
1910	2006	John Deere 3720 Tractor						\$64,000			
1915/30A	2007	Argo Avenger									
31A/1917	2008	Argo Avenger									
68/2611	2008	Tilt Trailer		\$27,000							
1920/46A	2010	Grizzly Boat w/trailer				\$24,000					
1921/37A	2010	2009 Kawasaki 650 ATV									\$20,000
1922/38A	2010	2010 Kawasaki 650 ATV									\$20,000
1923/35A	2012	2012 Kawasaki KVF360ACF ATV									
1924/36A	2012	2012 Kawasaki KVF360ACF ATV									
1925	2013	Rotary Mower		\$27,000							
1927/36B	2017	Honda 1000 EPS UTV	\$26,000								
1929	2017	GPS for Air Boat		\$12,000							
37B	2017	Kawasaki 750 ATV	\$15,000								
Shop and Spray Equipment											
363	1998	Beecomist - Replace with Promist Dura Fogger									
364	1998	Beecomist - Replace with Promist Dura Fogger									
365	2000	Beecomist - Replace with Promist Dura Fogger									
N/A	2001	Hotsy Pressure Washing System									
1601	2004	Twin Reel Intelli Sprayer									
1612	2004	Twin Reel Intelli Sprayer w/50 gal. Tank									
1617	2005	Aboveground Hoist									
2201	2007	Shop Workstation	\$70,000								
1635	2017	Promist Dura Fogger						\$29,000			
1638	2019	Promist Dura Fogger							\$30,000		
Equipment - Lab											

ASSET											
Inventory Number	Year purchased and/or placed in service	Description	Inflated replacement cost at fiscal year end June 30								
			2032	2033	2034	2035	2036	2037	2038	2039	2040
851	2001	Environmental Chamber									
853	2001	Nuair Safety Cabinet									
865	2003	Environmental Chamber									
2103	2004	Environmental Chamber Model 1-36VL									
2104	2005	Environmental Chamber Model 136VLC9									
2105	2005	Centrifuge (refrigerated)									
2116	2006	Centrifuge									
2117	2006	RT-PCR System									
2127	2007	Dual Mixer Mill							\$21,000		
2138	2008	MagMax - Replace with KingFisher Flex System									
2140	2009	Leica M125 Microscope									
2141	2009	Leica M125 Microscope									
2142	2009	Leica M125 Microscope									
2143	2009	Leica M80 Microscope									
2146	2012	Leica M125 Microscope	\$22,000								
2147	2012	Environmental Chamber	\$26,000								
2150	2013	Ultra-low Temperature Freezer									
		Equipment - Computer and Electronic									
3183	2015	Enhanced Video Security Camera System								\$14,000	
3188	2015	HP Smart Buy Server					\$9,000				
NA	2016	Boardroom Audio System (24 microphones)					\$37,000				
NA	2017	Exchange Server	\$8,000					\$9,000			
			\$260,000	\$423,000	\$137,000	\$144,000	\$274,000	\$1,164,000	\$174,000	\$403,000	\$383,000

ie 2020/2021 fiscal year.