



Sewer Authority Mid-Coastside

BOARD MEETING PRESENTATION

MAY 9, 2022

PURPOSE

- SAM's financial record keeping was part of an extensive discussion at a recent member agency's board meeting.
- However, based on the publicly-available records, that discussion included misunderstandings of SAM's recordkeeping practice.
- The purpose of this presentation is to:
 - Clarify the misconceptions brought up during the above-mentioned meeting
 - Explain the financial operation rules and practices that SAM abides

BEFORE WE BEGIN...

- Its not SAM's intent to single out any individuals.
- All the statements included in this presentation are public information, therefore, it is appropriate for SAM management to respond in a public forum as well.
- In order to protect people's privacy, all statements are anonymous.
- Please keep your questions until the end of this presentation.

STATEMENT #1: “That’s what it’s so difficult to explain this damn budget that they (SAM) move pieces around and it’s tough to get an apples to apples to apples comparison for years. And that’s why I took the time to back out some of the numbers to try and make it even comparison.”

- SAM follows an extensive budget process which includes several public meetings with Member Agency Managers, SAM’s Finance Committee, and the SAM Board of Directors.
- If there is any difficulty in understanding SAM’s budget, whether in whole or specific line items, SAM management provides ample opportunity for these questions to be posed at the above-mentioned appropriate forums.
- SAM staff, along with our financial consultants, are always ready and willing to clarify any questions.
- Our goal, as we have stated, is to provide our member agencies and the public with transparency in our finance operations.

STATEMENT #2: "...at the last meeting, all of a sudden they're talking about that electrical system improvement thing which is a million and a half dollars which has never shown up on another CIP budget so we need more consistency from them in that regard, and we're going to be talking about that in future managers meetings."

- The Electrical System Improvement Project has been on the list of Capital Improvements Projects since 2018, but it was postponed to a later date for various reasons.
- A lot of factors impact whether a project will be implemented or not in a given fiscal year, such as field conditions, availability of contractors, conflicts with other projects, etc.
- SAM always keeps a consistent approach in CIP planning, but it is the inevitable that some projects might get delayed or canceled.

STATEMENT #3: “So I look at the infrastructure spending for the past 3 years and that’s supposedly the capital improvement projects. It’s \$68,000 for one year, \$114,000 for 2020, \$149,000 for 2021. They’re collecting two million dollars from us for capital improvement programs, so I don’t know if they’re taking some of the money they’re spending on projects and putting it into the treatment budget or what they’re doing.”

- SAM adheres to the General Accepted Accounting Principles (GAAP) and is subject to annual independent financial statement audits.
- The audited financial statements are available for public inspection on the SAM website and date back to FY1996.
- Details of capital asset activity are displayed in Footnote 6 of every Financial Statement audit report from SAM.

FY2019/21 INFRASTRUCTURE REVENUE & EXPENDITURE

YEAR	REVENUE	EXPENDITURES	UNDER/(OVER) SPENDING
FY 2019	\$1,967,500	\$1,058,520	\$908,980
FY 2020	\$2,485,000	\$1,421,247	\$1,063,753
FY 2021	\$1,992,799	\$2,710,347	\$(717,548)
TOTAL	\$6,418,299	\$5,190,114	\$1,228,185

- In 2021, SAM officially presented options of returning the \$1.2 million balance and/or collecting less assessment for FY2022.
- However, all Member Agency Managers, as well as the Board, were not in favor of either option and decided that these funds should be retained by SAM for use in the case of emergencies.

STATEMENT #4: “What happens is they end up with more than a million dollars sitting in the bank that is not part of their required reserve, and that I think happened several years in a row and it was that money that they used to deal with the BOD problem because they’ve got this extra money that they don’t have to account for.”

- As mentioned previously, SAM’s Board and Finance Committee approved SAM to retain the unspent revenue for potential un-budgeted emergencies.
- The BOD problem and plant upset last year was one of such emergencies, and SAM used this budget according to what it was approved for.
- SAM tracked the costs of the plant upset and has been reporting budget vs. actual on a quarterly basis since the last quarter of FY2021.
- These reports were **reviewed, accepted, and approved** by the Finance Committee, and thereafter approved by the Board.

STATEMENT #5: “But the other thing they are doing now, and if you look at the infrastructure document in our current budget, they’re now not showing infrastructure spending since it’s all capitalized. It’s like gone away.”

- Per the Capital Asset/Depreciation Policy of SAM’s Financial Policy, all expenditures of \$5,000 and above are to be capitalized and converted into a long-term asset.
- This financial procedure is performed by SAM accounting personnel along with assistance of Accounting professionals. The determinations made by Staff is then assessed and audited by SAM’s independent auditors who have the ability to propose adjustments if the process did not follow SAM’s policy or ran contrary to GAAP.
- This process is conducted at the end of every fiscal year and is NOT a recent change in our procedure.

STATEMENT #6: “they (SAM) are collecting money for certain purpose and not using it for that purpose and they owe us an accounting of that and the other is when they make their case for.”

- SAM’s operating expenses include four sub-categories:
 1. Administration
 2. Treatment
 3. Environmental
 4. Infrastructure
- It is customary for public agencies to reallocate funds as necessary among these subcategories
- As long as infrastructure is part of the Operating Expenses, it will continue to be a challenge to separate it out in greater detail.
- The best alternative to track infrastructure separately is to create an entirely separate infrastructure budget.
- However, the Member Agency Managers discussed this alternative last year and deemed it unacceptable.

STATEMENT #7: “If they came to the conclusion that they really did not need to do the projects they proposed for which they have collected money, that money should roll forward into their next project budget. But what I want them to explain why they proposed and made a case for something and then decided they really didn’t need it after all 6 months later.”

- SAM takes CIP improvements seriously and we have a good track record of completing them:
 - FY2017/18 – (2) Budgeted Projects; (2) Completed
 - FY2018/19 – (5) Budgeted Projects; (3) Completed; (1) In Progress; (1) Postponed
 - FY2019/20 – (9) Budgeted Projects; (2) Completed; (3) In Progress; (3) Cancelled; (1) Postponed
 - FY2020/21 – (10) Budgeted Projects; (7) Completed; (1) In Progress; (2) Cancelled
- This statement did touch on some important aspects of SAM’s project planning that warrant further explanations:
 1. What happens if a project is cancelled or delayed?
 2. Why are some projects cancelled?

1. What happens if a project is cancelled or delayed?

- Planned projects do not always get executed within the budget year for various reasons; SAM's CIP planning procedures were detailed in the CIP workshop held in January 2021.
- For example, Wet Weather Storage Phase II was approved for implementation in 2017 with a budget of \$700,000, but SAM was unable to execute it within the same year due to various reasons, including high bid prices.
- This project was eventually completed in FY2020/21 at a final cost of \$1.9 million.
- SAM did NOT request a budget adjustment because funds were available in the General Fund.

2. Why are some projects canceled?

- A planned CIP project can be cancelled for various reasons:
 - SAM staff came up with an innovative and cost-effective solution to the problem
 - Detailed engineering assessments determined that the asset is still in good condition
- For example, the Montara Force Main was budgeted for partial replacement in FY2019/20 at \$1.3 million.
- However, upon conducting a comprehensive condition assessment of the pipeline, the force main was determined to be in good shape and did not require full replacement.
- The funds budgeted for this project were rolled over to the next year for future projects.

STATEMENT #8: “I don’t think SAM should have a slush fund like that because the Board was not informed.”

- SAM does not have a “slush fund”, or anything of that nature.
- SAM’s budget, expenditure, under/over-spent amounts have always been reviewed and approved by the Board of Directors and Finance Committee and subsequently independently audited. Our audits have received unmodified opinions and have not included notes of unnecessary unrestricted funds.
- In addition, we have been told by our auditors that SAM’s fiscal health depends on having additional unrestricted assets.



OTHER MENTIONS:

“The place (SAM WWTP) is falling apart”

“SAM as an organization is so goofed up that we can’t guarantee you that you’re going to have money to run the plant next year at all”

- Net position is the equivalent of equity; a positive figure represents overall good financial health.
- For example:
 - Cash (Asset) = \$100,000
 - Accounts Payable (Liability) = \$80,000
 - Total Net Position = \$20,000

SAM's Net Position Since 2016

FINANCIAL YEAR	NET POSITION IN 1,000s	DECREASE/INCREASE IN 1,000s	PERCENTAGE CHANGE FROM
2016	\$12,506	\$343	-2.7%
2017	\$11,775	\$731	-5.8%
2018	\$14,294	\$2,519	+21.4%
2019	\$15,522	\$1,228	+8.6%
2020	\$16,746	\$1,224	+7.9%
2021	\$17,062	\$316	+1.9%

- SAM's Net Position turned from negative to positive in 2018 and has been staying on the positive side since then.
- A positive Net Position means overall good financial health.

CONCLUDING THOUGHTS

- SAM has been adhering to strict financial practices as directed by SAM's financial policy manual as well as Generally Accepted Accounting Principles (GAAP).
- SAM's Board of Director and the Finance Committee review and approve ALL SAM's budgets and expenditures.
- There are no mysterious "slush funds"; the SAM Board and Finance Committee are made aware of all expenditures.
- SAM welcomes and encourages more public participation in the Finance Committee meetings, which are held on the 3rd Thursday of every month at 11:00 AM PST.
- SAM will soon be conducting workshops on financial operations in order to further our internal goals of financial transparency and service to our Community.

Q&A
