

Agenda
Rio Linda / Elverta Community Water District
Finance / Administrative Committee

Visitors/Depot Center
6730 Front Street
Rio Linda, CA 95673

April 08, 2019
6:30 p.m.

Public documents relating to any open session items listed on this agenda that are distributed to the Committee members less than 72 hours before the meeting are available for public inspection on the counter of the District Office at the address listed above.

The public may address the Committee concerning any item of interest. Persons who wish to comment on either agenda or non-agenda items should fill out the Comment Card and give it to the General Manager. The Committee Chair will call for comments at the appropriate time. Comments will be subject to reasonable time limits (3 minutes).

In compliance with the Americans with Disabilities Act, if you have a disability, and you need a disability related modification or accommodation to participate in this meeting, then please contact the District office at (916) 991-1000. Requests must be made as early as possible and at least one full business day before the start of the meeting.

Call to Order

Public Comment

This is an opportunity for the public to comment on non-agenda items within the subject matter jurisdiction of the Committee. Comments are limited to 3 minutes.

Items for Discussion:

1. Review and discuss the expenditures of the District for the month of March 2019.
2. Review and discuss the Financial Reports for the month of March 2019.
3. Discuss the proposed revisions to the District's written finance policies.
4. Status of the Service Application Fee Study.
5. Status of the ACH method of payment implementation and banking services provider.
6. Discuss lessons from the City of Lincoln state audit.

Directors' and General Manager Comments

Items Requested for Next Month's Committee Agenda

- Continue discussing the District's commercial banking service provider.

Adjournment

Next Finance / Administrative Committee meeting: Monday, May 13, 2019 at 6:30 p.m.

ADA COMPLIANCE STATEMENT

In compliance with the Americans with Disabilities Act, if you need special assistance or materials to participate in this meeting, please contact the District Office at 916-991-1000. Notification 48 hours prior to the meeting will enable the District to make reasonable arrangements to ensure accessibility to this meeting and agenda materials.



Finance /Administrative Committee Agenda Item: 1

Date: April 08, 2019

Subject: Expenditure Summary

Staff Contact: Timothy R. Shaw, General Manager

Recommended Committee Action:

It is recommended that the Finance / Administrative Committee approve the Expenditure Summary for the month of March 2019 and forward to the April 15, 2019 meeting of the Board.

Current Background and Justification:

These expenditures were necessary and prudent for operation of the District and consistent with the policies and budget adopted by the Board of Directors. The Expenditure Summary provides the listing of expenditures which have occurred since the last regular meeting of the Board.

Conclusion:

Consistent with the District policies, the Expenditure Summary is to be reviewed by the Finance/Administrative Committee and approved by the Board of Directors.

**Rio Linda Elverta Community Water District
Expenditure Report
March 2019**

Type	Date	Num	Name	Memo	Amount
Liability Check	03/04/2019	EFT	QuickBooks Payroll Service	For PP Ending 02/28/2019 Paydate 03/05/2019	16,411.48
Liability Check	03/05/2019	EFT	CalPERS	For PP Ending 02/28/2019 Paydate 03/05/2019	1,762.83
Liability Check	03/05/2019	EFT	CalPERS	For PP Ending 02/28/2019 Paydate 03/05/2019	1,652.16
Liability Check	03/05/2019	EFT	California State Disbursement Unit	Employee Garnishment	397.50
Liability Check	03/05/2019	EFT	Nationwide	Employee Benefits	1,186.02
Bill Pmt -Check	03/05/2019	EFT	Adept Solutions	Computer Maintenance	1,109.00
Bill Pmt -Check	03/05/2019	EFT	Arco	Transportation Fuel	576.99
Bill Pmt -Check	03/05/2019	EFT	Comcast	Phone/Internet	416.49
Bill Pmt -Check	03/05/2019	EFT	Republic Services	Utilities	85.82
Bill Pmt -Check	03/05/2019	EFT	Voyager Fleet Commander	Transportation Fuel	407.43
Liability Check	03/05/2019	EFT	Internal Revenue Service	Employment Taxes	5,483.98
Liability Check	03/05/2019	EFT	Employment Development	Employment Taxes	1,027.99
Paycheck	03/05/2019	5823	Employee	For PP Ending 02/28/2019 Paydate 03/05/2019	92.35
Check	03/05/2019	5824	RLECWD	Umpqua Bank Monthly Debt Service Transfer	16,500.00
Liability Check	03/05/2019	5825	Franchise Tax Board	Employee Garnishment	286.95
Bill Pmt -Check	03/05/2019	5826	ACWA/JPIA	Employee Benefits	23.50
Bill Pmt -Check	03/05/2019	5827	American Mobile Shredding, Inc.	Office Expense	25.00
Bill Pmt -Check	03/05/2019	5828	Buckmaster Office Solutions	Office Equipment Expense	346.20
Bill Pmt -Check	03/05/2019	5829	EKI Environment & Water	Engineering - Nov/Dec 2018	6,833.33
Bill Pmt -Check	03/05/2019	5830	Rio Linda Elverta Recreation & Park Dist	Meeting Expense	50.00
Bill Pmt -Check	03/05/2019	5831	Rio Linda Hardware and Building Supply	Shop Supplies	325.69
Bill Pmt -Check	03/05/2019	5832	SMUD	Utilities	10,218.76
Bill Pmt -Check	03/05/2019	5833	Spok, Inc.	Field Communication	15.19
Bill Pmt -Check	03/05/2019	5834	Vanguard Cleaning Systems	Janitorial	195.00
Check	03/05/2019	5835	Void	Void	0.00
Liability Check	03/18/2019	EFT	WageWorks	Employee Benefits	71.00
Liability Check	03/19/2019	EFT	AFLAC	Employee Benefits	651.04
Liability Check	03/19/2019	EFT	QuickBooks Payroll Service	For PP Ending 03/15/19 Pay date 03/20/19	18,923.60
Bill Pmt -Check	03/19/2019	EFT	WageWorks	Employee Benefits	327.80
Liability Check	03/20/2019	EFT	CalPERS	For PP Ending 03/15/19 Pay date 03/20/19	2,020.18
Liability Check	03/20/2019	EFT	CalPERS	For PP Ending 03/15/19 Pay date 03/20/19	1,876.56
Liability Check	03/20/2019	EFT	Internal Revenue Service	Employment Taxes	6,490.96
Liability Check	03/20/2019	EFT	Employment Development	Employment Taxes	1,306.54
Liability Check	03/20/2019	EFT	Nationwide	Employee Benefits	1,255.30
Liability Check	03/20/2019	EFT	California State Disbursement Unit	Employee Garnishment	397.50
Liability Check	03/20/2019	EFT	Kaiser Permanente	Employee Benefits	342.43
Liability Check	03/20/2019	EFT	Principal	Employee Benefits	1,483.03
Liability Check	03/20/2019	EFT	Western Health Advantage	Employee Benefits	12,350.17
Bill Pmt -Check	03/20/2019	EFT	Verizon	Field Communication	232.64
Check	03/20/2019	EFT	RLECWD - Capital Improvement	Current Monthly Transfer	45,835.00
Check	03/20/2019	EFT	RLECWD - SURCHARGE ACCOUNT 1	Current Monthly Transfer	42,500.00
Check	03/20/2019	EFT	RLECWD - Operating	Transfer funds for Security Deposits paid with Credit Card	1,200.00
Check	03/20/2019	EFT	RLECWD - Capital Improvement	Transfer funds for Community Business Bank UMS Reimbursement	41,835.00
Bill Pmt -Check	03/20/2019	EFT	Bankcard Center 2911	Computer, Meetings, Office, Permits, Postage	634.99

**Rio Linda Elverta Community Water District
Expenditure Report
March 2019**

Type	Date	Num	Name	Memo	Amount
Bill Pmt -Check	03/20/2019	EFT	Bankcard Center 7806	Office Expense	410.34
Bill Pmt -Check	03/20/2019	EFT	Bankcard Center 8200	Shop Supplies	69.76
Liability Check	03/20/2019	5836	Teamsters Local #150	Union Dues	608.00
Check	03/20/2019	5837	Sacramento County Clerk/Recorder	Permits & Fees	131.00
Check	03/20/2019	5838	Postmaster	Postage - Bulk mail refill	2,255.52
Bill Pmt -Check	03/20/2019	5839	BSK Associates	Lab Fees	255.00
Bill Pmt -Check	03/20/2019	5840	CoreLogic Solutions	Metro Scan	134.75
Bill Pmt -Check	03/20/2019	5841	OPUS Bank	Surcharge 2 Loan Payment	105,302.12
Bill Pmt -Check	03/20/2019	5842	PG&E	Utilities	123.77
Bill Pmt -Check	03/20/2019	5843	Quill	Office Expense	58.52
Bill Pmt -Check	03/20/2019	5844	Sacramento County Utilities	Utilities	113.70
Bill Pmt -Check	03/20/2019	5845	The News	Publishing	44.00
Bill Pmt -Check	03/20/2019	5846	UniFirst Corporation	Uniforms	273.59
Bill Pmt -Check	03/20/2019	5847	EKI Environment & Water	Capital Improvement: Well 16	6,872.50
Bill Pmt -Check	03/21/2019	EFT	WageWorks	Employee Benefits	20.00
Bill Pmt -Check	03/27/2019	EFT	WageWorks	Employee Benefits	38.40
Total 10000 - Bank - Operating Account					361,874.37

**Rio Linda Elverta Community Water District
Expenditure Report
March 2019**

10100 · Security Deposits

Type	Date	Num	Payee	Memo	Amount
Transfer	03/20/2019	EFT	RLECWD - Operating Account	February 2019 Security Deposits Applied	200.00

10100 · Security Deposits

200.00

Type	Date	Num	Payee	Memo	Amount
Check	03/20/2019	EFT	RLECWD	Transfer Loan Payment paid by Operating Funds	105,302.12

10375 · Surcharge Account 2

105,302.12

Type	Date	Num	Payee	Memo	Amount
Transfer	03/20/2019	EFT	RLECWD - Operating	Transfer see operating checks numbers 5847	6,872.50

10455 · Capital Improvement Reserve

6,872.50



Finance /Administrative Committee Agenda Item: 2

Date: April 08, 2019

Subject: Financial Reports

Staff Contact: Timothy R. Shaw, General Manager

Recommended Committee Action:

It is recommended that the Finance / Administrative Committee review the Finance Reports of the District for the month of March 2019.

Current Background and Justification:

The financial reports are the District's balance sheet, profit and loss, and capital improvements year to date. This report provides the snapshot of the District's fiscal health for the period covered.

Conclusion:

Consistent with District policies, these financials are to be reviewed by this committee and presented to the Board of Directors to inform them of the District's current financial situation.

Rio Linda Elverta Community Water District
Balance Sheet
 As of March 31, 2019

ASSETS

Current Assets

Checking/Savings

100 · Cash & Cash Equivalents

10000 · Operating Account

10005 · Operating Fund 303,177.17

10010 · Operating Reserve Fund 250,000.00

Total 10000 · Operating Account 553,177.17

10100 · Trust/Security Deposit Account 44,892.00

10450 · Capital Improvement

10455 · Capital Improvement Fee Reserve 1,045,056.41

10460 · Vehicle Replacement Reserve 10,000.00

10465 · Cr6 Project 100,013.58

Total 10450 · Capital Improvement 1,155,069.99

10600 · LAIF GASB 45 16,253.79

Total 100 · Cash & Cash Equivalents 1,769,392.95

102 · Restricted Assets

102.1 · Restricted Capital Improvements

10700 · ZIONS Inv/Surcharge Reserve 499,800.56

Total 102.1 · Restricted Capital Improvements 499,800.56

102.2 · Restricted for Debt Service

10300 · Surcharge 1 Account 654,805.53

10325 · Community Business Bank 41,431.61

10350 · Umpqua Bank 103,017.54

10350 · Surcharge 2 Account 457,144.57

Total 102.2 · Restricted for Debt Service 1,256,399.25

Total 102 · Restricted Assets 1,756,199.81

Total Checking/Savings 3,525,592.76

Accounts Receivable 487.50

Other Current Assets

12000 · Water Utility Receivable 508,986.62

12200 · Accrued Revenue 0.00

12250 · Accrued Interest Receivable 2,558.73

15000 · Inventory Asset 95,018.40

16000 · Prepaid Expense 38,340.00

Total Other Current Assets 644,903.75

Total Current Assets 4,170,984.01

Fixed Assets

17000 · General Plant Assets 712,486.63

17100 · Water System Facilites 20,717,058.49

17300 · Intangible Assets 373,043.42

17500 · Accum Depreciation & Amort -8,702,559.39

18000 · Construction in Progress 1,250,105.87

18100 · Land 496,673.45

Total Fixed Assets 14,846,808.47

Other Assets

19000 · Deferred Outflows 347,606.00

19900 · Suspense Account 0.00

Total Other Assets 347,606.00

TOTAL ASSETS 19,365,398.48

Rio Linda Elverta Community Water District
Balance Sheet
As of March 31, 2019

LIABILITIES & EQUITY

Liabilities

Current Liabilities

Accounts Payable	42,148.04
Credit Cards	876.21
Other Current Liabilities	644,520.68

Total Current Liabilities	687,544.93
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Long Term Liabilities

23000 · OPEB Liability	262,349.00
23500 · Lease Buy-Back	755,052.27
25000 · Surcharge 1 Loan	4,536,774.26
25050 · Surcharge 2 Loan	105,000.00
26000 · Water Rev Refunding	2,091,606.00
27000 · Community Business Bank	342,485.52
29000 · Net Pension Liability	1,033,555.00
29500 · Deferred Inflows-Pension	33,279.00
29600 · Deferred Inflows-OPEB	8,293.00

Total Long Term Liabilities	9,168,394.05
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Total Liabilities	9,855,938.98
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Equity

31500 · Invested in Capital Assets, Net	7,519,910.46
32000 · Restricted for Debt Service	699,786.24
38000 · Unrestricted Equity	642,702.76
Net Income	647,060.04

Total Equity	9,509,459.50
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TOTAL LIABILITIES & EQUITY	19,365,398.48
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Rio Linda Elverta Community Water District
Operating Profit & Loss Budget Performance
 March 2019

	<u>Annual Budget</u>	<u>Mar 19</u>	<u>Jul 18-Mar 19</u>	<u>% of Annual Budget</u>	<u>YTD Annual Budget Balance</u>
Ordinary Income/Expense					
Income					
Total 40000 · Operating Revenue	2,664,429.00	219,800.99	1,926,453.16	72.30%	737,975.84
41000 · Nonoperating Revenue					
41110 · Investment Revenue					
41112 · Interest Revenue	400.00	29.66	361.98	90.50%	38.02
Total 41110 · Investment Revenue	400.00	29.66	361.98	90.50%	38.02
41120 · Property Tax	70,000.00	0.00	50,561.64	72.23%	19,438.36
Total 41000 · Nonoperating Revenue	70,400.00	29.66	50,923.62	72.34%	19,476.38
Total Income	<u>2,734,829.00</u>	<u>219,830.65</u>	<u>1,977,376.78</u>	<u>72.30%</u>	<u>757,452.22</u>
Gross Income	2,734,829.00	219,830.65	1,977,376.78	72.30%	757,452.22
Expense					
60000 · Operating Expenses					
60010 · Professional Fees	165,979.00	22,318.63	116,697.93	70.31%	49,281.07
60100 · Personnel Services					
60110 · Salaries & Wages	663,114.00	52,671.26	460,801.96	69.49%	202,312.04
60150 · Employee Benefits & Expense	408,099.00	34,253.29	299,310.22	73.34%	108,788.78
Total 60100 · Personnel Services	1,071,213.00	86,924.55	760,112.18	70.96%	311,100.82
60200 · Administration	257,595.00	13,087.62	197,472.97	76.66%	60,122.03
64000 · Conservation	6,748.00	0.00	5,733.00	84.96%	1,015.00
65000 · Field Operations	423,809.00	19,159.45	308,425.24	72.78%	115,383.76
Total 60000 · Operating Expenses	1,925,344.00	141,490.25	1,388,441.32	72.11%	536,902.68
69000 · Non-Operating Expenses					
69010 · Debt Service					
69100 · Revenue Bond					
69105 · Principle	133,163.00	0.00	53,163.00	39.92%	80,000.00
69110 · Interest	65,726.00	0.00	33,260.30	50.60%	32,465.70
Total 69100 · Revenue Bond	198,889.00	0.00	86,423.30	43.45%	112,465.70
69125 · AMI Meter Loan					
69130 · Principle	46,818.00	0.00	46,818.03	100.00%	-0.03
69135 · Interest	11,696.00	0.00	11,695.89	100.00%	0.11
Total 69125 · AMI Meter Loan	58,514.00	0.00	58,513.92	100.00%	0.08
Total 69010 · Debt Service	257,403.00	0.00	144,937.22	56.31%	112,465.78
69400 · Other Non-Operating Expense	2,000.00	0.00	0.00	0.00%	2,000.00
Total 69000 · Non-Operating Expenses	259,403.00	0.00	144,937.22	55.87%	114,465.78
Total Expense	<u>2,184,747.00</u>	<u>141,490.25</u>	<u>1,533,378.54</u>	<u>70.19%</u>	<u>651,368.46</u>
Net Ordinary Income	<u>550,082.00</u>	<u>78,340.40</u>	<u>443,998.24</u>		
Net Income	<u><u>550,082.00</u></u>	<u><u>78,340.40</u></u>	<u><u>443,998.24</u></u>		

CAPITAL BUDGET VS ACTUAL FISCAL YEAR 2018-2019
July 2018 through March 2019

	GENERAL		CONNECTIONS		CHROMIUM MITIGATION & NEW WELLS		VEHICLE REPLACEMENT	
	Annual Budget	YTD Actual	Annual Budget	YTD Actual	Annual Budget	YTD Actual	Annual Budget	YTD Actual
BEGINNING FUND BALANCE	\$ 1,426,064.00	\$ 1,426,064.00	\$ 129,988.00	\$ 129,988.00	\$ (454,317.00)	\$ (454,317.00)	\$ -	\$ -
FUNDING SOURCES								
Fund Transfers								
Operating Fund Transfers In	550,000.00	411,703.00	-	-	-	-	-	-
CIP Fund Intrafund Transfers	(10,000.00)	(10,000.00)	-	-	-	-	10,000.00	10,000.00
Surcharge 2 Surplus Repayment	-	-	-	-	435,752.00	-	-	-
Contributed Funding								
Capacity Fee Revenue	-	-	40,000.00	28,124.02	-	-	-	-
Contributed Facilities (Developers)	-	-	-	-	-	-	-	-
Grant Revenue	-	-	-	-	20,000.00	-	-	-
Loan Proceeds	35,212.00	25,000.00	18,055.00	18,055.00	2,468,239.00	-	30,000.00	-
Investment Revenue	350.00	533.83	-	-	-	-	-	-
Sale of Fixed Assets	-	-	-	-	-	-	-	-
TOTAL FUNDS AVAILABLE FOR CIP PROJECTS	2,001,626.00	1,853,300.83	188,043.00	176,167.02	2,469,674.00	(454,317.00)	40,000.00	10,000.00
PROJECTS								
A - WATER SUPPLY								
A-1 - Well 10 - Cr6 Treatment	-	-	-	-	40,000.00	-	-	-
A-2 - Well 16	-	-	-	-	2,448,239.00	13,378.80	-	-
A-3 - Well 17	28,000.00	-	-	-	-	-	-	-
A-4 - Miscellaneous Pump Replacements	40,000.00	-	-	-	-	-	-	-
Total A - WATER SUPPLY	68,000.00	-	-	-	2,488,239.00	13,378.80	-	-
B - WATER DISTRIBUTION								
B-1 - System Valve Replacements	30,000.00	-	-	-	-	-	-	-
B-2 - Paving Replacements	25,000.00	-	-	-	-	-	-	-
B-3 - Service Replacements	35,000.00	29,609.50	-	-	-	-	-	-
B-4 - Large Meter Replacements	5,000.00	-	-	-	-	-	-	-
Total B - WATER DISTRIBUTION	95,000.00	29,609.50	-	-	-	-	-	-
M - GENERAL PLANT ASSETS								
M-1 - Ice Machine	2,804.00	2,803.96	-	-	-	-	-	-
M-2 - Billing Software Upgrade	25,000.00	25,000.00	18,055.00	16,835.00	-	-	-	-
M-3 - Office Furniture & Equipment	10,212.00	-	-	-	-	-	-	-
M-4 - Truck	-	-	-	-	-	-	30,000.00	-
Total M - GENERAL PLANT ASSETS	38,016.00	27,803.96	18,055.00	16,835.00	-	-	30,000.00	-
C - CONTINGENCY								
C-1 - Contingency (10% of Est A,B,M, & FO)	20,101.60	-	1,805.50	-	248,823.90	-	3,000.00	-
TOTAL BUDGETED PROJECT EXPENDITURES	221,117.60	57,413.46	19,860.50	16,835.00	2,737,062.90	13,378.80	33,000.00	-
ENDING FUND BALANCE	\$ 1,780,508.40	\$ 1,795,887.37	\$ 168,182.50	\$ 159,332.02	\$ (267,388.90)	\$ (467,695.80)	\$ 7,000.00	\$ 10,000.00

**Rio Linda Elverta Community Water District
Surcharge 1 Profit & Loss Budget Performance
March 2019**

	<u>Annual Budget</u>	<u>Mar 19</u>	<u>Jul-Mar 19</u>	<u>% of Annual Budget</u>	<u>YTD Annual Budget Balance</u>
Income					
41000 · Non-Operating Revenue					
41110 · Investment Revenue					
41111 · Dividend Revenue	0.00	386.18	1,016.31	100.0%	-1,016.31
41112 · Interest Revenue	8,000.00	2,267.71	6,851.94	85.65%	1,148.06
41113 · Market Value Adjustment	0.00	2,352.64	3,103.69	100.0%	-3,103.69
	<u>8,000.00</u>	<u>5,006.53</u>	<u>10,971.94</u>	<u>137.15%</u>	<u>-2,971.94</u>
43010 · Surcharge 1 Revenue	523,374.00	174,834.25	377,749.25	72.18%	145,624.75
Total Income	<u>531,374.00</u>	<u>179,840.78</u>	<u>388,721.19</u>	<u>73.15%</u>	<u>142,652.81</u>
Gross Income	531,374.00	179,840.78	388,721.19	73.15%	142,652.81
Expense					
69150 · Surcharge (SRF)					
69155 · Principle	342,540.00	170,176.52	170,176.52	49.68%	172,363.48
69160 · Interest	118,814.00	60,500.80	60,500.80	50.92%	58,313.20
69170 · Admin Fees	2,210.00	493.81	1,569.72	71.03%	640.28
Total 69150 · Surcharge (SRF)	<u>463,564.00</u>	<u>231,171.13</u>	<u>232,247.04</u>	<u>50.1%</u>	<u>231,316.96</u>
Total Expense	<u>463,564.00</u>	<u>231,171.13</u>	<u>232,247.04</u>		
Net Income	<u><u>67,810.00</u></u>	<u><u>-51,330.35</u></u>	<u><u>156,474.15</u></u>		

**Rio Linda Elverta Community Water District
Surcharge 2 Profit & Loss Budget Performance
March 2019**

	<u>Annual Budget</u>	<u>Mar 19</u>	<u>Jul-Mar 19</u>	<u>% of Annual Budget</u>	<u>YTD Annual Budget Balance</u>
Income					
41000 · Non-Operating Revenue					
41110 · Investment Revenue					
41112 · Interest Revenue	20.00	36.74	84.63	423.15%	-64.63
	<u>20.00</u>	<u>36.74</u>	<u>84.63</u>	<u>423.15%</u>	<u>-64.63</u>
43050 · Surcharge 2 Revenue	439,019.00	145,420.52	302,630.63	68.93%	136,388.37
Total Income	<u>439,039.00</u>	<u>145,457.26</u>	<u>302,715.26</u>	<u>68.95%</u>	<u>136,323.74</u>
Gross Income	439,039.00	145,457.26	302,715.26	68.95%	136,323.74
Expense					
69175 · Surcharge 2 Loan					
69180 · Principle	195,000.00	105,000.00	195,000.00	100.0%	0.00
69185 · Interest	136,038.00	302.12	2,158.20	1.59%	133,879.80
Total 69175 · Surcharge 2 Loan	<u>331,038.00</u>	<u>105,302.12</u>	<u>197,158.20</u>	<u>59.56%</u>	<u>133,879.80</u>
Total Expense	<u>331,038.00</u>	<u>105,302.12</u>	<u>197,158.20</u>		
Net Income	<u><u>108,001.00</u></u>	<u><u>40,155.14</u></u>	<u><u>105,557.06</u></u>		



Finance /Administrative Committee Agenda Item: 3

Date: April 08, 2019

Subject: Revisions to the District's written Finance Policies

Staff Contact: Timothy R. Shaw, General Manager

Recommended Committee Action:

The Finance / Administrative Committee should review the updated draft finance policies and forward the item(s) to the April 15th Board agenda with a recommendation for Board approval.

Current Background and Justification:

The March Finance/Adminin Committee reviewed the draft policies and directed staff to continue to revise/update content. This was particularly relevant given the then scheduled meeting with the Zions Bank Fiscal agent.

The conference call with the Fiscal Agent confirmed what we had suspected from reviewing the supporting documents and statutes. The fiscal agent agreement stipulates the investment requirements for the SRF loan, i.e. changing and updating District policies has no bearing on the requirements of the fiscal agent.

Review the applicable statutes, e.g. Gov't Code 53600 et seq., further provides perspective on reasonable content in the District's finance policies. As already established, the District does not have a Finance Officer or a Treasurer. Consequently, only the Board of Directors is authorized to make changes to investments. The District's Finance Policies need to reflect the District's "familiarity and capacity" for investment decisions and the lack thereof (see excerpts of CA Gov't Code 53600 included with your packets).

Conclusion:

Forward the draft revised District Finance Policies onto the April 15th Board agenda, with a recommendation for Board approval.

GOVERNMENT CODE - GOV**TITLE 5. LOCAL AGENCIES [50001 - 57550]***(Title 5 added by Stats. 1949, Ch. 81.)***DIVISION 2. CITIES, COUNTIES, AND OTHER AGENCIES [53000 - 55821]***(Division 2 added by Stats. 1949, Ch. 81.)***PART 1. POWERS AND DUTIES COMMON TO CITIES, COUNTIES, AND OTHER AGENCIES [53000 - 54999.7]***(Part 1 added by Stats. 1949, Ch. 81.)***CHAPTER 4. Financial Affairs [53600 - 53997]***(Chapter 4 added by Stats. 1949, Ch. 81.)***ARTICLE 1. Investment of Surplus [53600 - 53610]***(Article 1 added by Stats. 1949, Ch. 81.)***53600.3.**

Except as provided in subdivision (a) of Section 27000.3, all governing bodies of local agencies or persons authorized to make investment decisions on behalf of those local agencies investing public funds pursuant to this chapter are trustees and therefore fiduciaries subject to the prudent investor standard. When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency. Within the limitations of this section and considering individual investments as part of an overall strategy, investments may be acquired as authorized by law.

*(Amended by Stats. 1996, Ch. 749, Sec. 4. Effective January 1, 1997.)***53607.**

The authority of the legislative body to invest or to reinvest funds of a local agency, or to sell or exchange securities so purchased, may be delegated for a one-year period by the legislative body to the treasurer of the local agency, who shall thereafter assume full responsibility for those transactions until the delegation of authority is revoked or expires, and shall make a monthly report of those transactions to the legislative body. Subject to review, the legislative body may renew the delegation of authority pursuant to this section each year.

(Amended by Stats. 1996, Ch. 749, Sec. 6. Effective January 1, 1997.)

REDLINE DRAFT OF REVISED RLECWD FINANCE POLICIES
Originally adopted in Resolution 2012-12

3.09.140 District Investment Policy

PURPOSE

This statement is intended to provide policy and direction ~~to the Finance Officer of the District for the~~ prudent and beneficial use of all funds and monies of the District without regard to source or restrictions. Any reference to portfolio shall mean the total of District cash and securities ~~under management by the~~

~~Finance Officer.~~ Permitted investments shall be listed in Exhibit A.

AUTHORITY

The Government Code of the State of California (Government Code), primarily section 53601 and related subsections authorize the types of investment vehicles allowed in a California local agency's portfolio. The investment vehicles emphasize preservation of capital and are a conservative set of investments. The authority to invest (as defined in the Government Code) is delegated to the local agency's legislative body for re-delegation to its finance officer. Under no circumstances is the local agency finance officer permitted to purchase an investment that is not specifically authorized by law and within the scope of investments delegated by the local agency's governing Board.

BASIC POLICY AND OBJECTIVES

The Rio Linda / Elverta Community Water District investment policy is a conservative policy guided by three principles of public fund management. In specific order of importance, the three principles are:

1. ~~1-~~Safety of Principal. Investments shall be undertaken in a manner which first seeks to preserve portfolio principal.
2. ~~2-~~Liquidity. Investments shall be made with maturity dates that are compatible with cash flow requirements and which will permit easy and rapid conversion into cash, at all times, without a substantial loss of value.
3. ~~3-~~Return on Investment. Investments shall be undertaken to produce an acceptable rate of return after first consideration for principal and liquidity.

FOLLOWING ARE OBJECTIVES:

DIVERSIFICATION

-The District shall maintain a portfolio of authorized investments with diversified maturities, issuers and security types to avoid the risk inherent in over investing in any one sector. The ~~Finance Officer~~~~District~~ shall evaluate or cause to have evaluated each potential investment, seeking quality of issuer, underlying security or collateral, potential negative effects of market volatility on the investment and shall diversify the portfolio to reduce exposure and assure adherence to the Basic Policy and Objectives paragraph of this policy.

~~PRUDENT INVESTOR STANDARD Investments will be made with the same standard of care that~~

Commented [G1]: Evidently, RLECWD had a "Finance Officer in 2012. We don't have one now, and you don't have anyone literally qualified to make investments for a public agency. There is nothing wrong with the objectives, but all the guidelines regarding investment vehicles and amounts should be deleted. The context included sends an inaccurate message. If we have reserves and/or long-term fee accounts (e.g. capacity fees) They should be invested in LAIF. Unless and until the District has qualified personnel to perform such responsibilities.

Commented [G2]: Again, this content sends the wrong message unless and until the District re-acquires a Treasurer or Finance Officer.

~~persons of prudence, discretion and intelligence exercise when managing their own affairs, not for speculation, but for investment with particular consideration for safety of capital as well as probable~~

~~income derived.~~

REPORTING REQUIREMENTS

~~Annually~~ ~~Each month~~ the Finance Officer shall prepare and submit a report of investment transactions ~~and general finance activity shall be submitted~~ to the Board of Directors. This report will be sufficiently detailed to provide information for investment evaluation.

~~PERFORMANCE REVIEW~~ ~~An annual~~ ~~As needed~~, an appraisal of the investment portfolio shall be conducted to evaluate the effectiveness of the District's investment program. The purpose of this review, in addition to evaluation of performance, is to provide the platform for recommendations of change and improvements to the portfolio to the Board of Directors.

~~GRANDFATHER CLAUSE~~ ~~Any investment held by the District at the time of this policy is adopted~~ shall not be sold to conform to any part of this policy unless its sale is judged to be prudent by the Finance Officer.

Commented [G3]: This clause is unnecessary if we readopt the policies now. We have on Finance Officer and we have no investments other than LAIF.

CONFLICTS OF INTEREST

~~The~~ If the District appoints a Finance Officer or Treasurer, regardless of such position being full-time regular employee or a contract/consultant capacity, such position shall perform his/her duties under this Investment Policy in accordance with the provisions of Section 1126 and 1090 of the Government Code as well as any other state law referred to in this policy.

~~EXCEPTIONS~~ ~~When the Finance Officer determines that an exception to one of the numerical limits is~~

~~in the best interest of the District, such exception is permitted as long as it is consistent with applicable~~

~~State and Federal laws. Exceptions to this policy shall be reported to the Board of Directors within five~~

~~working days along with a detailed explanation for the variance.~~

~~Rio Linda / Elverta Community Water District July 16, 2012~~

~~Resolution 2012-12~~

CONFLICTS

In the event any provision of this Statement of Investment Policy is in conflict with any of the statutes referred to herein or any other State or Federal statute, the provisions of each statute shall govern.

SAFEKEEPING

-All securities purchased may be delivered against payment and held in safekeeping pursuant to a safekeeping agreement. All financial institutions shall be instructed to mail confirmations and safekeeping receipts directly to the Finance Officer of the District.

EXHIBIT "A"

PERMITTED INVESTMENTS

~~1. Investment Type Maximum Investment Maximum Maturity~~

~~1) Investment pool authorized under \$50 million1 Liquid CA Account Statues governed by Government Code Sections 16429.1-16429.4 AKA Local Agency Investment Fund or LAIF.~~

1. Investment pool authorized under \$50 million1 Liquid CA Account Statues governed by Government Code Sections 16429.1-16429.4 AKA Local Agency Investment Fund or LAIF.

2. California Employers Retiree Benefit Trust (CEBRT)

3. Money Market Mutual Funds governed by Government Code Sections 53601.6(b).

~~2) California Asset Management Unlimited Liquid Account Program (CAMP)~~

~~3) U.S. Treasury Obligations Unlimited 5 Years California Employers Retiree Benefit Trust.~~

~~4) Bank Savings Account 25% Liquid Account~~

~~5) Federal Agencies 75% 5 Years~~

~~6) Commercial Paper 20% 180 Days~~

~~7) Negotiable Certificates of Deposit 20% 180 Days~~

~~8) Re-purchase Agreements 20% 180 Days~~

~~9) Corporate Debt 25% 5 Years~~

~~ADDITIONAL LIMITS ON INVESTMENTS:~~

~~1) No notes.~~

~~3) U.S. Treasury Obligations are limited to Treasury Bills, Treasury Notes, and Treasury Bonds.~~

~~4) Bank Savings Accounts must be collateralized at 110% of account balance.~~

~~5) Federal agency or United States government sponsored enterprise obligations, participations, or~~

~~other instruments, including those issued by or fully guaranteed as to principal and interest by~~

~~federal agencies or United States government sponsored enterprises.~~

~~Rio Linda / Elverta Community Water District July 16, 2012~~

~~Resolution 2012-12~~

~~Must be a U.S. corporation with over \$500 million in assets. The commercial paper must be of the highest ranking or of the highest letter and number rating as provided for by a nationally recognized statistical rating organization. The District may purchase no more than 10 percent of the outstanding commercial paper of any single issuer. Additionally, District purchases may not exceed 10% per issuer.~~

~~7) Negotiable certificates of deposit must be issued by a nationally or state chartered bank, a savings association, or a federal association (as defined by Section 5102 of the Financial Code), or a state or federal credit union, or by a state licensed branch of a foreign bank. Purchases are limited to institutions which have long term debt rated in the "A" category or higher, or the equivalent, by a nationally recognized rating organization.~~

~~8) The District will enter into repurchase agreements only with primary government securities dealers as designated by the Federal Reserve Bank of New York. Repurchase agreements shall be~~

~~governed by a master repurchase agreement adopted by the Public Securities Association. All securities underlying repurchase agreements shall be delivered to the District's custodial bank, or be handled under a properly executed "tri party" custodial arrangement. Collateral for repurchase agreements is restricted to U.S. Treasury issues or Federal Agency issues.~~

~~The underlying collateral must be at least 102% of the repurchase agreement amount. If the value of securities held as collateral slips below 102% of the value of the cash transferred, then additional cash or acceptable securities must be delivered to the third party custodian. Market value shall be recalculated each time there is a substitution of collateral. For repurchase agreements with terms to maturity of greater than three days, the value of the collateral securities shall be marked to market weekly by the custodian, and if additional collateral securities is required, then that collateral must be delivered within two business days. If a collateral deficiency is not corrected within two days, the collateral securities will be liquefied.~~

~~A perfect first security interest in the collateral securities, under the Uniform Commercial Code, shall be created for the benefit of the District. Collateral securities shall be held free and clear of any lien and shall be an independent third party acting solely as an agent for the District, and such third party shall be (i) a Federal Reserve Bank, or (ii) a bank which is a member of the Federal Deposit Insurance Corporation and which has combined capital, surplus, and undivided profits of not less than \$50 million.~~

~~9) Purchases are limited to corporate and depository institution debt securities issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States. Notes eligible for investment shall be rated "A" or better by a nationally recognized rating service. District purchases may not exceed 10% per issuer. Limits subject to change; established by State Treasurer.~~

~~Rio Linda / Elverta Community Water District July 16, 2012~~

~~Resolution 2012-12~~

3.09.150 ~~Operating and Cash~~ Reserve Policy

~~BASIC POLICY STATEMENT AND OBJECTIVES~~ DEFINITIONS

The Rio Linda / Elverta Community Water District reserve policy is a financial policy guided by sound accounting principles of public fund management. The policy establishes several reserve funds to minimize adverse annual budgetary impacts from anticipated and unanticipated District expenses. The adequacy of the target reserve year-end balance ranges and/or annual contributions will be reviewed annually during the budgeting and rate setting process and may be revised accordingly as necessary.

The District reserves can be classified into two categories that include Restricted for Debt Service and Restricted Other Purposes. A "fund" is a segregation within the District's accounting system to keep sources and uses for a particular purpose easily identifiable and reportable.

Restricted for Debt Service: Funds that are used to account for accumulations of resources that are restricted for principal and interest.

Restricted Other Purposes: Funds that are used to accumulations of resources that are restricted for other purposes not included in Debt Service restricted assets.

The following District reserve funds ~~categories~~ are ~~restricted~~ established for debt service:

~~1 Capital Improvement~~ Capacity Fee Reserve

~~1.1. Purpose: To provide funds for the orderly and timely expansion of the District facilities to meet future demand and to maintain and/or improve the District's existing level of service.~~

~~1.2. Target Balance: AB1600 does not designate a target reserve balance. A Government Code 66000 Compliance Report identifies the proposed capital projects necessary to maintain and/or improve services and the amount needed to fund those capital projects. In accordance with Government Code 66000, the balance shall not exceed the amount specified by that law.~~

~~1.3. Methodology/Rational: Virtually all development that occurs within the District requires the use of District facilities, plant and equipment for public services. This fee is established to insure the adequacy and reliability of such facilities, plant and equipment as development of undeveloped land occurs.~~

~~1.4. Use of Funds: The funds generated by the fee will be used to acquire, replace and/or construct various capital facilities, plant and equipment for the provision of water, security and administrative services.~~

~~1.5 Funding: Annual contributions from developer fees will depend upon new construction within the District. Additionally, interest earnings will be accrued on and added to fund balance, using the District's earnings rate on investments. The District also currently contributes \$20,000.00 per month into this fund from operating income.~~

1. ~~2-Surcharge~~ 1 Account

~~1.1. 2.1-Purpose: To pay the semi-annual payments per This account was created to pay off the 2011 Safe Drinking Water State Revolving Fund SRF loan of \$7,179,499,072.45.7900. This account will be closed after repayment of the loan or 20 years from the project completion date. The account shall be maintained and administered by the Fiscal Agent.~~

~~1.2. 2.2-Target Balance: Per Article B-4, a minimum of \$80,320 shall be deposited into the account every other month until the loan is repaid in full. The target balance increases and decreases~~

Commented [G4]: This section exemplifies why the District needs to have these policies in the Policy Manual.

with the construction project in progress. It will stabilize when the construction is complete and loan payment begins. Hence, there is currently no target balance.

- 1.3. ~~2.3~~-Methodology/Rational: ~~It has been determined by t~~The State of California ~~that set~~ the amount of \$19.00 per connection per billing period ~~should be sufficient for the for loan repayment of their loan.~~
- 1.4. ~~2.4~~-Use of Funds: The funds will be used only for ~~repayment of SRF principal and/or interest on the loan- or any delinquencies until loan is repaid in full per funding agreement Section 13 Fiscal Services and Deposit Account Control Agreement.~~
- 1.5. ~~2.5~~-Funding: ~~a~~ surcharge fee of \$19.00 per billing cycle is charged to each active account and collected as a primary source of funds. ~~A minimum of \$80,320 per billing cycle is deposited until the loan is paid off.~~

2. ~~3~~-Surcharge 1 Reserve Fund

- 2.1. ~~3.1~~-Purpose: To establish a reserve as required by our 2011 Safe Drinking Water State Revolving Fund (SDWSRF)~~SRF~~ funding agreement # SRF111CX107, Article B-4 Reserve Fund. The Reserve Fund shall be maintained and administered by the Fiscal Agent.
- 2.2. ~~3.2~~-Target Balance: The target balance is equivalent to two (2) loan payments or a minimum of \$481,917.00 per funding agreement Article B-4. which is equivalent to 2 semiannual loan payments.
- 2.3. ~~2.3~~-Methodology/Rational: ~~There is \$88,352.00 put into this reserve every billing cycle. The current balance is \$353,408.00. The reserve should be up to the required amount in the next two billing cycles.~~ To assure that funds will be available to make the semi-annual payments when due.
- 2.4. ~~2.4~~-Use of Funds: The funds will ~~not be used. They are to~~ remain in this account until the loan is paid off per our loan agreement.
- 2.5. ~~2.5~~-Funding: The reserve is fully funded~~\$88,352.00 is transferred into this account every billing cycle until it reaches its required amount.~~

4. ~~2003 Water Revenue Refunding Bonds Reserve Fund 2032~~

- 4.1. Purpose: ~~To establish a reserve as required by our 2003 Water Revenue Refunding Bonds~~
- 4.2. Target Balance: ~~The target balance is \$242,484.00 which is equivalent to 2 semiannual loan payments.~~
- 4.3. Methodology/Rational: ~~This fund is already fully funded and no additional monies are being deposited.~~
- 4.4. Use of Funds: ~~The funds will not be used. They are to remain in this account until the bonds are paid off per our bond agreement.~~
- 4.5. Funding: ~~This fund is already fully funded and no additional monies are being deposited. Rio Linda/ Elverta Community Water District July 16, 2012 Resolution 2012-12~~

Commented [DD5]: Deleted no longer required

3. ~~5-201503~~ Water Revenue Refunding Bond ~~Debt~~ Service Fund

- 3.1. ~~5-1-~~ Purpose: To make semi-annual bond payments ~~on the 2003 bonds in the amount of \$3,970,000.~~
- 3.2. ~~5-2-~~ Target Balance: The amount equivalent to the amount payable on the bonds semi-annually. ~~There is approximately \$240,000.00 due per year on this bond issue.~~
- 3.3. ~~5-3-~~ Methodology/Rational: The District deposits ~~\$20,000.00 a set amount~~ per month in to this reserve from the Operating Fund ~~in order~~ to have ~~sufficient~~ funds to pay the bond payments when due.
- 3.4. ~~5-4-~~ Use of Funds: These funds are used exclusively to repay the ~~201503~~ Bond debt.
- ~~3.5. 5-5-~~ Funding: ~~The set amount is paid by the Operating Fund \$20,000 per month is put into this account~~ to build up enough money for payment of the bonds when due.

4. Surcharge 2 Account

- 4.1. Purpose: Maintained by the District into which collected Surcharge #2 revenues are deposited per the 2018 Installment Sale Agreement with OPUS Bank for the Project outlined in Exhibit B. This account will be closed after repayment of the loan.
- 4.2. Target Balance: The amount equivalent to the loan amount payment semi-annually.
- 4.3. Methodology/Rational: The surcharge imposed by the District for the Project pursuant to its Ordinance No. 2016-02.
- 4.4. Use of Funds: The funds will be used only for payment of principal and/or interest on the loan, or any delinquencies until loan is repaid in full per installment agreement Article IV, Section 4.4.
- 4.5. Funding: A surcharge fee collected at the rate of \$7.90 for each water connection, increasing to \$15.80 for each water connection on July 20, 2018, and collected as a primary source of funds for loan repayment.

The following District reserve funds are restricted for other purposes:

~~4-5-6-~~ Operating Reserve Fund

- ~~4-1-5.1. 6-1-~~ Purpose: ~~To ensure cash resources are available to fund daily administration, operations and maintenance of providing water, wastewater, security and drainage services provide an emergency reserve fund to cover temporary cash flow deficiencies caused by timing differences between revenues and expenditures.~~
- ~~4-2-5.2. 6-2-~~ Target Balance: ~~Funding shall be A~~ minimum of ~~six-one~~ months of cash to fund District ~~operating~~ expenditures.
- ~~4-3-5.3. 6-3-~~ Methodology/Rational: The District is required to have sufficient cash flow to meet the next six months of budgeted District expenditures (Government Code Section 53646(b)(3)). ~~This fund is The next six months of projected cash revenues can be included as a source of cash flow to satisfy this requirement. Revenues in excess of reserve contributions and expenditures resulting from expenditure savings or timing differences are also reflected in this fund.~~

~~4.4.6.4~~ Use of Funds: These funds ~~may be~~ will be used to cover temporary cash flow deficiencies caused by timing differences and/or unexpected decreases revenue and expenses pay for expenditures according to budget and expenditure authority.

~~5.4.~~

~~4.5.5.5.~~ ~~6.5~~-Funding: At each fiscal year budget, an analysis will be performed to determine the minimum target balance based upon the previous fiscal year's average monthly expenditures. Annual contributions will vary, depending upon other reserve requirements and current year expenditure requirements. Additionally, interest earnings will be accrued on and added to fund balance, using the District's earnings rate on investments.

~~5. 7. Trust Account~~

~~6. 7.1. Purpose: To collect deposits for new customer accounts. These deposits are refunded after one year of timely payment on their account.~~

~~7. 7.2. Target Balance: The balance on this account fluctuates with the number of customers that have deposits with the District.~~

~~8. 7.3. Methodology/Rational: The District requires a \$100.00 deposit for each parcel that is owned by a customer. There is a method of waiving the deposit. If the customer can provide us with a letter of credit from a current or previous utility provider that shows at least one year of history with no late payments or returned checks the deposit can be Rio Linda / Elverta Community Water District July 16, 2012 waived. If a deposit is required, the deposit gets returned to their account after one year of timely payment or when they move. If there is a deposit balance after paying the final bill upon leaving the property it is refunded in the form of a check.~~

~~9. 7.4. Use of Funds: These funds will be used to pay the final bill on an account if it is left unpaid when the owner moves away.~~

~~10. 8. Secured Credit Card~~

~~11. 8.1 Purpose: To provide a constant amount of money for the District credit cards to draw upon.~~

~~12. 8.2. Target Balance: The balance on this account is \$15,000.00.~~

~~13. 8.3. Methodology/Rational: The District had no credit when the current Management went to obtain a credit card for the company. The only way a card could be secured was to have a constant balance set aside for the company credit cards to draw upon and reimburse monthly.~~

~~14. 8.4. Use of Funds: These funds are used to pay credit card expenses and reimbursed monthly.~~

~~15. 8.5. Funding: The District initially funded this account with the amount of \$15,000.00.~~

~~16.6. 9. LAIF OPEB or GASB 745 Funding~~

~~16.1.6.1. 9.1~~ Purpose: To provide a source of income to fund ~~post retirement~~ post-retirement benefits.

~~16.2. 9.2~~-Target Balance: None Unknown. An Actuarial study needs to be performed to determine the

~~16.3.6.2.~~ appropriate amount to include in this account.

~~16.4.6.3. 8.3~~-Methodology/Rational: Government Code Section 22940 establishes in the State Treasury the Annuitants' Health Care Coverage Fund for the prefunding of health care coverage for annuitants (Prefunding Plan); and -the California Public Employees' Retirement System (CalPERS) Board of Administration (Board) has sole and exclusive control and power over the

administration and investment of the Prefunding Plan (also referred to as CERBT) This will be determined when the actuarial study is done.

~~16.5-6.4.~~ ~~8-4-~~ Use of Funds: ~~These funds are to~~ be used to fund post-retirement benefits costs, e.g. retiree medical insurance benefits obligated via applicable collective bargaining agreements.

~~6.5.~~ ~~8-5-~~ Funding: The annual Operating Budget ~~income to fund this account will~~ determine the funding amount. The funds will be paid through ~~come from~~ the Operating Fund.

7. Capacity Fee Reserve

7.1. Purpose: To provide funds for the orderly and timely expansion of the District facilities to meet future demand and to maintain and/or improve the District's existing level of service.

7.2. Target Balance: AB1600 does not designate a target reserve balance. A Government Code 66000 Compliance Report identifies the proposed capital projects necessary to maintain and/or improve services and the amount needed to fund those capital projects. In accordance with Government Code 66000, the balance shall not exceed the amount specified by that law.

7.3. Methodology/Rational: Virtually all development that occurs within the District requires the use of District facilities, plant and equipment for public services. This fee is established to insure the adequacy and reliability of such facilities, plant and equipment as development of undeveloped land occurs.

7.4. Use of Funds: The funds generated by the fee will be used to acquire, replace and/or construct various capital facilities, plant and equipment for the provision of water, security and administrative services.

7.5. Funding: Annual contributions from developer fees will depend upon new construction within the District. Additionally, interest earnings will be accrued on and added to fund balance, using the District's earnings rate on investments.

Commented [G6]: The content and context of this section (e.g. AB1600 and GC 66000 references) implies this section was intended to address the Capacity Fees. Capital Improvement funding would not normally entail any sort of a reserve account. Furthermore, the District should not be making contributions, annual or otherwise in a Capacity Fee Account unless there was a parent document delineating and justifying how the existing customers need to help pay for new capacity.

3.09.160 Whistleblower Policy

PURPOSE

Rio Linda / Elverta Community Water District (RLECWD) requires its Directors, Managers and Employees to observe high standards of professionalism and ethical conduct in maintaining financial records. This Whistleblower Policy (the "Policy") establishes standards and procedures to ensure that complaints and concerns ("Accounting Irregularity") regarding accounting or auditing matters are reported and handled in a manner that complies with management's objectives. In addition, this policy establishes procedures for:

1. ~~1-~~ The confidential, anonymous submission by Complainants of Accounting Irregularities regarding questionable accounting or auditing matters; and,
2. ~~2-~~ The treatment of Accounting Irregularities concerning accounting, internal account controls and auditing matters received by RLECWD from Complainants.

NO RETALIATION

No office, employee or other (the "Complainant") who in good faith reports an Accounting Irregularity shall suffer harassment, retaliation or adverse employment consequences. An employee who retaliates against someone who has reported an Accounting Irregularity in good faith is subject to discipline up to and including termination of employment. This Whistleblower Policy is intended to encourage and enable Complainants to raise serious concerns with RLECWD rather than seek resolution outside RLECWD.

PROCEDURE FOR REPORTING VIOLATIONS

It is the responsibility of all Directors, Managers and Employees to report all suspected Accounting Irregularities in accordance with this Policy. RLECWD maintains an open-door policy and suggests that Complainants share their questions, concerns or complaints with someone who can address them properly. In most cases, the Complainant's supervisor is in the best position to address an area of concern. A Complainant's supervisor may be most knowledgeable about the issues and will appreciate being brought into the process. It is the supervisor's responsibility to help solve the problem.

~~2.~~ If the Complainant is not comfortable speaking to his/her supervisor or is not satisfied with the supervisor's response, the Complainant is encouraged to speak with the General Manager. Supervisors and General Manager are required to report suspected Accounting Irregularities to the Board of Directors. The Board of Directors will create an Audit Committee which has specific and exclusive responsibility to investigate all reported violations. For suspected fraud or securities law violations, or when the Complainant is not satisfied or is uncomfortable with following RLECWD's open door policy, the Complainant should contact the General Manager directly.

RLECWD General Manager

P.O. Box 400

Rio Linda, CA 95673

(916) 991-1000

INVESTIGATION OF COMPLAINTS

1. ~~1.~~ The Audit Committee is responsible for investigating and resolving all reported complaints and allegations concerning Accounting Irregularities. The Audit Committee may retain independent legal counsel, accountants or other to assist in its investigation.
2. ~~2.~~ The Chair of the Audit Committee will notify the Complainant and acknowledge receipt of the reported suspected Accounting Irregularity within five business days. All reports will be ~~promptly~~ investigated promptly and appropriate corrective action will be taken if warranted as a result of the investigation.
3. ~~3.~~ RLECWD shall retain records of complaints for a period of no less than seven years as a separate part of the records of the Audit Committee.

ACCOUNTING AND AUDITING MATTERS

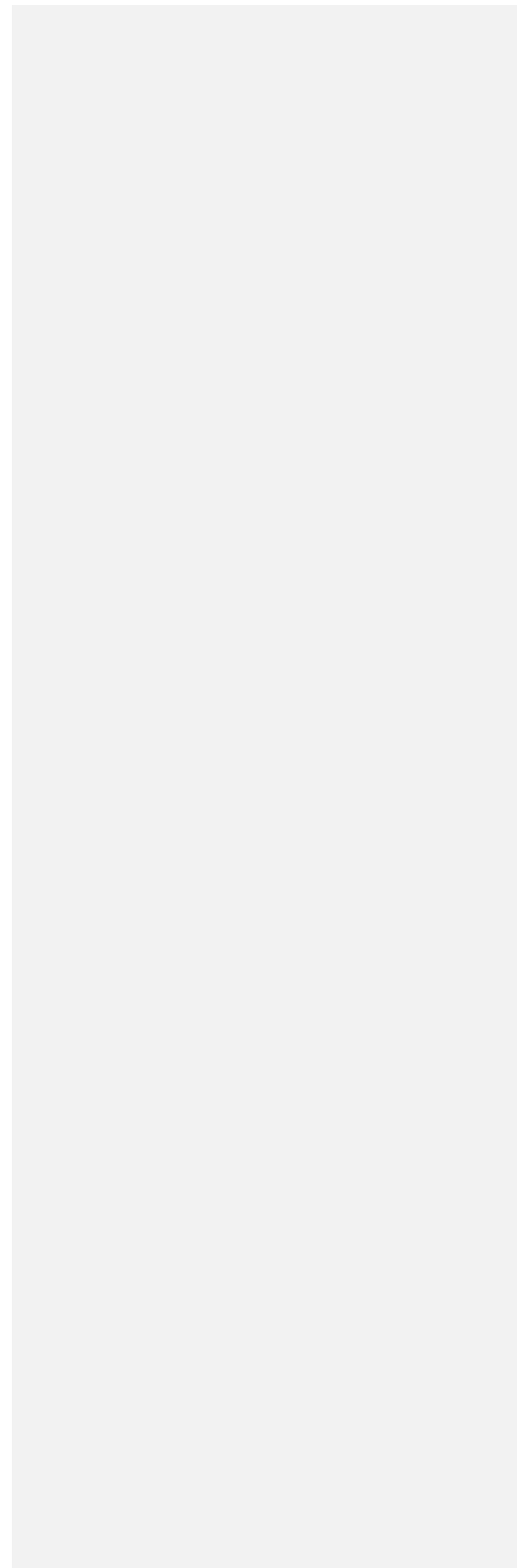
The Audit Committee is responsible for addressing all reported concerns or complaints regarding accounting practices, internal controls or auditing. The General Manager is required to immediately notify the Board of Directors of any complaint of which he/she is aware and to work with the Committee until the matter is resolved.

ACTING IN GOOD FAITH

Anyone filing a complaint concerning a suspected Accounting Irregularity must be acting in good faith and have reasonable grounds for believing the information disclosed indicates an Accounting Irregularity. Any allegations that prove not to be substantiated and which prove to have been made maliciously or knowingly to be false will be viewed as a serious disciplinary offense.

CONFIDENTIALITY

Complaints or submissions concerning a suspected Accounting Irregularity may be submitted on a confidential basis by the Complainant or may be submitted anonymously. All complaints or submissions will be kept confidential to all extent possible, consistent with the need to conduct an adequate investigation.





Finance /Administrative Committee

Agenda Item: 4

Date: April 08, 2019

Subject: Status Report on Service Application Fee Study

Staff Contact: Timothy R. Shaw, General Manager

Recommended Committee Action:

The Finance/Admin Committee should receive the status report for this item and provide feedback as appropriate.

Current Background and Justification:

This item was discussed at the March Finance/Admin Committee, and the Committee directed staff to bring back a recommended Service Application Fee amount with all appurtenant supporting documentation.

I have assigned to task of tracking time spent on each Service Application iteration to our Customer Service Tech II (Kim). Kim is familiar with the data collection objectives because of her experience with similar projects.

A sufficient number of service application evolutions has not yet transpired to reach a representative sampling. Service applications tend to occur in ebbs and flows. The more evolutions we consider, the more accurate our fee will represent the true average cost of providing the service.

Conclusion:

I recommend the committee direct staff to continue the item to the May Finance/Admin Committee.

EXHIBIT 5**SERVICE FEES AND CHARGES**

The water service charges identified in §4.31.210(B) of the Water System Regulations shall be modified as follows:

<u>Description of Fee or Charge</u>	<u>Code Section</u>	<u>Fee or Charge Rate</u>
Service Application – Existing Connection	§4.07.710	\$50.00 per location up to two meters when requested at the same time by the same customer; \$10.00 each additional meter.
Service Application – New Service Installation Required	§4.07.710 §4.07.015	\$100.00 per location with \$30.00 credited toward Service Application, if Service is initiated within 180 Days. Commercial, Industrial and Residential projects over Four (4) units will be charged on a Time & Material Basis.
Service Turn-off/Turn-on by District due to violation of Policy or Nonpayment during regular billing cycle	§4.07.810 §4.31.220 (C)	\$40.00
Turn-off Notice Tag	§4.31.250 §4.31.285	\$40.00
Customer Requested Temporary Turn-off/Turn-on	§4.07.840	\$40.00 (\$20.00 each), One-time Fee waiver for Installation of Gate Valve
Turn-off & Turn-on for Meter Tampering	§4.07.830	\$100.00
Removal of Meter & Reinstall due to Tampering	§4.07.830	\$200.00



Finance /Administrative Committee

Agenda Item: 5

Date: April 08, 2019

Subject: Status of ACH Payment Method and Banking Services Provider

Staff Contact: Timothy R. Shaw, General Manager

Recommended Committee Action:

Review the Umpqua Bank Master Services Agreement and forward the agreement onto the April 15th Board agenda with recommendation for Board approval.

Current Background and Justification:

The Board actions and direction to staff at the March 18th meeting were to continue evaluation of the Umpqua Bank Master Service Agreement (MSA) due to the relatively unfavorable content and format of the California Bank and Trust MSA. Timing restrictions warrant that the District execute the CA Bank and Trust MSA, as authorized by Board action, but to render such agreement with CA Bank and Trust eligible for termination via replacing the banking services provider.

As attested by Legal Counsel at the March 18th Board meeting, the Umpqua document is favorable, but we (Legal Counsel included) did not receive the Umpqua document in time to be considered by the Board at the March 18th Board meeting.

Other elements of switching banking services providers also need to be evaluated before the District begins a transition and we are able to terminate the CA Bank and Trust MSA. However, it is necessary and appropriate at this time to have the Board consider approving the execution of the Umpqua MSA.

On April 3rd, the office staff processed the first 17 customer payments via the ACH method through CA Bank and Trust.

Conclusion:

I forward the Umpqua Bank MSA onto the April 15th Board agenda with a recommendation for approval.

General Provisions

Terms and Conditions applicable to all Treasury Management Services

Proprietary Information

Customer acknowledges that all computer programs and systems used in providing Services, and all information relating thereto, constitute proprietary property of Umpqua and/or Umpqua's licensors that is of commercial value. Customer shall not acquire any interest or rights therein as a result of its use of Services and shall keep all such information strictly confidential.

Representations & Warranties

Customer and Umpqua each represent and warrant to the other, as of the date the TMS Agreement is entered into and at the time any Service is used or performed hereunder, that such representing and warranting party: (a) is validly existing and in good standing under the laws of the jurisdiction of its organization; (b) has all requisite authority to enter into and perform the TMS Agreement, and that the TMS Agreement is enforceable according to its terms; and (c) any consent or authorization of any governmental or regulatory authority or third party required to be obtained has been obtained by it in connection with the TMS Agreement and the Service.

Financial Review

Umpqua's willingness to provide Services to Customer is dependent on Customer's financial condition. Customer's financial condition is subject to review by Umpqua from time to time, and such reviews must be satisfactory to Umpqua in its sole discretion and opinion. Customer shall, upon request, provide to Umpqua any such information as Umpqua may require to perform any such review. Customer's failure to meet such standards or provide such information or assistance when requested shall constitute a breach of the TMS Agreement and shall permit Umpqua to cease providing the Service immediately.

Fees

Unless otherwise agreed by Umpqua in writing, Customer shall pay Umpqua the fees, charges and assessments for the Service as provided in the most current fee schedule. The price for each Service shall be deemed accepted by Customer upon provision of Services to Customer. In addition, Customer shall pay Umpqua the amount of any sales, excise, or similar taxes levied on fees charged under the TMS Agreement, and any assessments charged to Umpqua directly as a result of providing Service. Additionally, Customer agrees to pay Umpqua any fees or charges provided for in any Account Agreement between Umpqua and Customer. The fees for Services may be adjusted to reflect increases in any applicable third-party fees, assessment or charges. All such adjustments shall be Customer's responsibility to pay and shall become effective upon the date any such change is implemented by the applicable third party. Umpqua may change the amount or type of Service charges from time to time without advance notice to Customer. Fees for Service used by Customer may be charged in full to Customer's master billing account or may be offset through account analysis by applying earnings credit to Customer's Service charges to determine a single monthly net Service charge. Customer authorizes Umpqua to debit Customer's master billing account with Umpqua for any and all fees, expenses or other charges owed by Customer to Umpqua under the TMS Agreement.

Accounts

Unless otherwise determined by Umpqua, at Umpqua's sole discretion, to be eligible to use some Services, Customer must maintain an active, analyzed business checking account in good standing with Umpqua, as well as such other accounts as are specified in the sections hereof relating to specific Services hereunder.

Security Interest

Customer grants Umpqua a contractual possessory security interest in Customer's accounts maintained with Umpqua and the funds held therein to secure payment of all of Customer's obligations under the TMS Agreement. In connection with that grant, you acknowledge that we may set off against any accounts you own in whole or in part with us for any obligation you owe us at any time and for any reason allowed by the laws governing your account. These obligations include both secured and unsecured debts and debts you owe individually or with another authorized signer. We may consider this TMS Agreement as your consent to Umpqua Bank's asserting its security interest or exercising its right of setoff should the laws governing your account require consent. The rights described in this subsection are in addition to and apart from any other rights, including any rights granted under any security interest that you may have granted to us. The grant of this security interest shall survive termination of these Services.

Authorized Users

Customer agrees that Authorized Users shall be authorized to act on behalf of Customer in all actions taken under the TMS Agreement, including selecting Services for the benefit of Customer, appointing agents to act on behalf of

Customer, signing any documents relating to the applicable Services (e.g., giving Customer's instructions regarding such Services), including wire transfers, ACH transfers and other electronic or paper transfers from or to any account Customer maintains with Umpqua and/or any account at another institution as specified by such Authorized Signer. The Authorized Users may appoint agents who may act on Customer's behalf regarding a particular Service in accordance with the relevant documents or system settings establishing the Authorized Users' responsibilities. Customer may revoke the authority of or change the Authorized Users at any time upon prior written notice or execution of system settings and/or execution of additional documentation as may be required by Umpqua. Such change or revocation shall not be binding upon Umpqua until Umpqua has received the required written notice or system setting change and has had a reasonable opportunity to act thereon. In any event, Umpqua may act on instructions that it believes in good faith were provided by an Authorized User, and agent of such Authorized User or anyone purporting to be an Authorized User.

Security Procedures

Umpqua shall from time to time establish one or more security procedures to be used by Umpqua and Customer in connection with certain Services. Customer agrees to be bound by any payment order, transaction or Service change order that is acted upon by Umpqua in accordance with such security procedures. Customer understands that the security procedures are not for the purpose of detecting errors in the transmission or content of information controlled by Customer. If Customer selects certain security procedures to use in connection with a Service and those security procedures provide less protection against unauthorized transactions or activity than other security procedures offered by Umpqua in connection with such Service: (i) the security procedures selected by Customer shall be deemed commercially reasonable to the same extent as the security procedures offered by Umpqua that provide greater protection; and (ii) Customer shall indemnify and hold Umpqua harmless from and against all Losses and Liabilities relating directly or indirectly to Customer's use of such security procedures. Umpqua reserves the right to issue new security procedures and/or to cancel or change any security procedures from time to time.

1. Access

Customer shall be solely responsible for designating individuals or servers identified by IP (internet protocol) addresses which are authorized to access Services and shall be liable for all transactions initiated through the Services, including overdrafts. Access to the Services will be controlled through the use of names, identification numbers and/or passwords for Authorized Users ("Credentials"). For transactions sent or received via Secure File Transfer Protocol (Secure FTP) transmission, Umpqua will list the IP address of Customer's transmitting server as authorized and will provide Authorized User Credentials. All information disseminated and transactions initiated with the appropriate Credentials shall be presumed to have been disseminated and/or initiated by Authorized Users. Customer is solely responsible for maintaining its own security and agrees to use the utmost care in selecting any individual given access to use one or more of Services or access to any information concerning one or more of Services. Customer is solely responsible for the security of customer's authorized servers for sending and receiving transactions related to Services. Customer is solely responsible for removing previously Authorized Users that it desires not to have access to Services. Customer shall be solely responsible for any future dated transactions initiated by an Authorized User, even when Customer removes access of that User before the occurrence of a stored future dated transaction. Customer is responsible for maintaining the security and confidentiality of all Credentials and other security devices issued to or by Customer (collectively, "Customer's Internal Security Devices"). Customer shall not permit unauthorized individuals to use Customer's Internal Security Devices to access any Services. Customer is responsible for the actions of any individuals using Customer's Internal Security Devices to access any Service. Customer shall immediately notify Umpqua by telephone and confirm such verbal notification in writing to Umpqua in 24 hours if the security of Customer's Internal Security Devices has been compromised. Customer shall indemnify and hold Umpqua harmless against all losses, liabilities, damages, claims, demands, obligations, actions, suits, judgments, penalties, costs or expenses, including, but not limited to, attorneys' fees, (collectively, "Losses and Liabilities") relating, directly or indirectly, to Customer's failure to maintain the security and confidentiality of Customer's Internal Security Devices, Credentials or the unlawful use of any Services by Customer or any person who obtains access to Services using Customer's Internal Security Devices.

2. Confidentiality

Customer and Umpqua represent, warrant and mutually agree that all confidential information concerning the other party or parties that comes into its possession in connection with any services including security procedures or any security codes, keys, online Credentials, identification numbers, digital certificates/signatures or template numbers ("Codes"), will be maintained in strictest confidence and shall not be used or divulged to any third party except in the proper performance of the TMS Agreement or as required by applicable law or regulation. Customer is solely responsible for establishing and maintaining procedures to assure the confidentiality of its own security procedures, security devices and Codes and

assumes all risk of accidental disclosure or inadvertent use of any security device by any party whatsoever, whether such disclosure or use is due to Customer's negligent or deliberate acts or otherwise. If Customer or its agents have reason to believe that any security procedures or Codes have or may become known by unauthorized persons (whether or not employed by Customer), Customer shall immediately notify Umpqua by telephone and confirm such verbal notification in writing to Umpqua within 24 hours. Umpqua will replace the security procedures and Codes in accordance with Umpqua's security procedures. Customer shall be solely responsible for payment instructions and other communications initiated before Umpqua received Customer's notice and had a reasonable time to act on such notice. Umpqua reserves the right to change any or all of the security procedures or Codes by giving verbal or written notice to Customer.

3. Verbal and/or Written Instructions

For some Services, Umpqua may choose to honor Customer's request to give Umpqua verbal or written instructions regarding Services. Customer agrees that Umpqua may in good faith rely on such verbal or written instructions that purport to come from an Authorized User without independent verification by Umpqua.

4. System Requirements

Customer shall at all times use an Internet web browser that supports the level of encryption used by Umpqua as part of its security procedures. Umpqua reserves the right to supplement or change its security procedures from time to time upon reasonable notice to Customer, which Customer acknowledges may be less than a day's notice. Umpqua reserves the right to reject any transaction or Service request that is not made in accordance with its security procedures.

5. Risks of Using the Internet

Customer understands and agrees that, while Umpqua and Umpqua's Service providers have established certain security procedures, such as firewalls and data encryption designed to prevent unauthorized access to Customer's accounts or transactions, there can be no assurance that inquiries or transaction activity will be completely secure. Customer acknowledges and agrees to maintain adequate security measures for its systems so as to prevent unauthorized access. Customer also understands and agrees that access to the Service will not be free from delays, malfunctions, or other inconveniences generally associated with this electronic medium. Customer agrees that Umpqua is not responsible for any such unauthorized access, delays or malfunctions, or the acts of third parties.

6. Customer Administrator

Customer shall designate one or more Customer Administrators. Umpqua is authorized to direct all passwords, codes, program updates and System changes to the Customer Administrator. Umpqua is authorized to receive instructions from the Customer Administrator regarding requested changes to Services. The Customer Administrator shall be responsible for setting up online Services and for establishing internal security procedures related to such online Services, including accepting delivery of software, system-wide configuration of Umpqua accounts, establishing authority levels, establishing authorization requirements, and distributing online Credentials, Umpqua administered security devices, and other internal security devices related to the online Services. Customer's designation of the Customer Administrator may be amended or revoked from time to time upon written notice to Umpqua. Umpqua shall have a reasonable time to act on any such notice.

Online Services – Restricted Transactions

Restricted transactions are prohibited from being processed through any account or relationship or Service hereunder. The Federal Reserve Board's Regulation GG defines "restricted transaction" as meaning any of the following transactions or transmittals involving any credit, funds, instrument, or proceeds that the law prohibits any person engaged in the business of betting or wagering (which does not include the activities of a financial transaction provider, or any interactive computer Service or telecommunications Service) from knowingly accepting, in connection with the participation of another person in unlawful Internet gambling:

- Credit, or the proceeds of credit, extended to or on behalf of such other person (including credit extended through the use of a credit card);
- An electronic fund transfer, or funds transmitted by or through a money transmitting business, or the proceeds of an electronic fund transfer or money transmitting Service, from or on behalf of such other person; or
- Any Check or Item that is drawn by or on behalf of such other person and is drawn on or payable at or through any financial institution.

Equipment & Software

Customer is responsible for obtaining (from Umpqua, in some instances), installing and maintaining the computers, communications equipment, software, web browsers, Internet access, merchant terminals, and communications Services necessary to access and use Services in accordance with the TMS Agreement, all at Customer's sole expense. Umpqua is not responsible for any errors or failures from any malfunction of your computer or software. Umpqua makes no warranty to Customer regarding your computer or software, including any warranty of merchantability or fitness for a particular purpose.

Customer agrees to install upgrades and other system enhancements within a reasonable time of being requested to do so by Umpqua.

With respect to any software provided to Customer by Umpqua or by Umpqua's licensors ("Umpqua Software"), Customer shall comply with all applicable software license agreements, whether or not Customer has executed such agreements. Such license agreements shall be embedded in the software, separately documented, and/or as provided herein, and Customer shall be bound by all of the foregoing.

Customer has no rights or ownership in any Umpqua Software provided by or through Umpqua and shall not transfer, copy, alter, modify, reverse engineer, reproduce, or convey in any manner, in whole or in part, any such Umpqua Software. Customer shall return all Umpqua Software and user manuals and other documentation associated with any Umpqua Software upon request. Umpqua makes no representations or warranties regarding any equipment or software provided by Umpqua or by Umpqua's licensors. Umpqua is not responsible for any computer viruses that Customer may encounter. Umpqua is not responsible for any computer virus related problems that may be associated with the use of the Online Banking Service or any other Service.

UMPQUA AND UMPQUA'S LICENSORS SHALL HAVE NO LIABILITY OF ANY NATURE TO CUSTOMER, OR TO ANY THIRD PARTY, FOR ANY DAMAGES, LOSSES, LIABILITIES OR CLAIMS, WHETHER IN CONTRACT, TORT, INFRINGEMENT, OR OTHERWISE, WHICH CUSTOMER OR ANY THIRD PARTY MAY INCUR IN CONNECTION WITH CUSTOMER'S USE OF ANY SOFTWARE, OR COMPUTERS OR OTHER EQUIPMENT, WHETHER OR NOT SUPPLIED BY UMPQUA OR UMPQUA'S LICENSORS, INCLUDING, WITHOUT LIMITATION, ANY ARISING FROM ERRORS IN THE SOFTWARE OR COMPUTERS OR OTHER EQUIPMENT.

License

Subject to agreements Umpqua may have with its licensors, whenever Umpqua provides Customer with any Umpqua Software, Umpqua grants Customer a non-exclusive, non-transferable license, non-sub-licensable license to: use the Umpqua Software in object code form only in connection with the applicable Services, solely for Customer's business operations, in accordance with the TMS Agreement and solely on equipment that complies with any equipment related specifications provided by Umpqua; copy and use the related documentation solely to support Customer's authorized use of the Umpqua Software; and copy any Umpqua Software actually delivered to Customer solely for archival or backup purposes.

Customer shall not export, re-export or otherwise transfer, directly or indirectly, any Umpqua Software and/or equipment, or any portion thereof, to any location inside or outside the United States without first notifying Umpqua and receiving written Umpqua authorization, as well as complying with all applicable laws and regulations (including those regarding import, export, marketing, distribution or use of software or equipment).

Customer will, at its expense, promptly execute and deliver such further documents and take any and all other actions reasonably requested by Umpqua from time to time, for the purpose of fully effectuating the intent and purposes of the license granted, and to protect the interests of Umpqua, its licensors, and their respective successors and assignees.

Customer acknowledges that violation of its commitments regarding any Umpqua Software may cause irreparable injury to Umpqua and/or its licensors, and agrees that Umpqua shall be entitled to obtain temporary, preliminary, and permanent injunctive relief in a court of competent jurisdiction, without the necessity of proving actual damages or posting a bond, to prevent such violation.

Customer acknowledges and agrees that its license to Umpqua Software and its documentation will terminate upon the earlier to occur of: (i) termination of the applicable Service, or (ii) termination of Umpqua's license to such software and documentation.

Customer shall not remove or alter any copyright, trademark, or other intellectual property or proprietary right notices, legends, symbols or labels appearing on or in the Umpqua Software, its documentation or any packaging thereof, and shall include on any copy of the software or its documentation any copyright, trademark, or other intellectual property or proprietary right notices contained on the original.

Customer will: (a) cooperate with Umpqua and its licensors to protect the Umpqua Software, including in connection with any lawsuits or disputes involving the Umpqua Software; (b) promptly notify Umpqua and provide Umpqua with relevant background and other facts upon becoming aware of any actual or potential claim made by a third party regarding infringement, misappropriation, imitation, illegal use or misuse, or reasonable likelihood thereof, of the Umpqua Software; and (c) in the event of any actual or potential infringement, misappropriation, imitation, illegal use or misuse, or reasonable likelihood thereof of the Umpqua Software by others: (i) grant to Umpqua and its licensors the sole right to determine the course of action regarding such infringement and to bring or defend any proceeding with respect thereto, and to settle, and collect any settlement amount or judgment for any such proceeding, and (ii) agree that Umpqua and its licensors shall be solely entitled to any proceeds of any such proceeding, including any settlement proceeds, insurance proceeds, arbitration award, judgment, or other consideration in any form.

Customer hereby assigns to Umpqua and/or its licensors, as directed by Umpqua, any rights, including any patent, copyright, trademarks, Service marks and trade secrets, which Customer may now have or which it may acquire at any time in the future in or to the Umpqua Software or the intellectual property rights to such software, and any other computer code using any of such software.

Customer will not at any time, either directly or indirectly, put to issue the scope, validity or ownership of Umpqua's or its licensors' intellectual property rights in the Umpqua Software and its documentation; do any act which could reasonably be expected to impair the scope, validity or ownership of such intellectual property rights, or assert any ownership rights to the Umpqua Software or its documentation. Customer acknowledges and agrees that these Terms and Conditions do not grant or convey to Customer: an interest in or to the Umpqua Software or its documentation, but only a limited right of use, revocable in accordance with the terms hereof; or any right, title, interest or license in or to any copyright, patent, trade name, trademark or Service mark of Umpqua or its licensors.

Customer will establish reasonable precautions and use commercially reasonable efforts, no less rigorous than those Customer uses to protect its own confidential information, to protect and maintain the confidentiality and security of the Umpqua Software and its documentation. Without limiting the generality of the foregoing, Customer will use reasonable measures to protect the Umpqua Software and its documentation from unauthorized copying, dissemination, disclosure or other unauthorized use.

Customer will not, and will not permit any third party to, copy or use the Umpqua Software or its documentation except as expressly authorized by these Terms & Conditions, sublicense, rent, distribute, transfer, publish, disclose, display or otherwise make available the Umpqua Software to others; use the Umpqua Software or its documentation for third-party training, commercial time-sharing or Service bureau use; or alter, change, modify or otherwise create derivative works of the Umpqua Software or its documentation.

Customer will not, and will not permit any third party to, reverse engineer, disassemble or decompile any Umpqua Software, except to the extent expressly permitted by applicable law. If Customer intends or begins to take any such action based on any applicable law, Customer shall notify Umpqua and Umpqua shall have the right to immediately terminate Services and/or the license to the Umpqua Software or its documentation.

Customer will maintain a complete and accurate list of all locations where Customer has loaded and maintains the Umpqua Software and its documentation and make such lists available to Umpqua upon Umpqua's request.

Customer acknowledges and agrees that all right, title and interest in and to the Umpqua Software and its documentation, together with any modifications, enhancements and derivative works, and all intellectual property rights such as copyrights, patents, trademarks and trade secrets, pertaining to the Umpqua Software and its documentation, are and shall remain owned exclusively throughout the universe by Umpqua and its licensors, represent or contain valuable rights of Umpqua and its licensors, and are protected under United States patent, copyright, trademark and trade secret laws of general applicability. These Terms and Conditions do not create in Customer any rights to, and do not constitute an assignment of any rights of Umpqua or its licensors in and to, any copyrights, trademarks, trade secrets, patents, or other intellectual property rights of Umpqua or such licensors. Other than the license provided in these Terms & Conditions, no other license or interest in the Umpqua Software or its documentation, express or implied, is granted under these Terms & Conditions.

Customer will install the Umpqua Software in accordance with the related documentation provided by Umpqua, and will install and implement any changes and upgrades to the Umpqua Software as Umpqua may require, within 90 days of receipt of such change or upgrade, or within such shorter time frame as Umpqua may reasonably require if such change or upgrade is necessary to comply with statutory or regulatory changes or developments, or to protect the integrity and security of Services.

Spyware, Firewall, & Antivirus Protection

Customer shall secure all of its computers that are to be used in connection with Services hereunder, or which are connected on any network with any such computers. Such protection must include, without limitation, utilizing a computer firewall and running anti-virus and anti-spyware software. Customer may use any commercially available,

industry recognized firewall, and any commercially available, industry recognized antivirus and anti-spyware software that detect and disinfect viruses and neutralize spyware automatically, without the need for Customer to prompt the scanning of files. Customer shall update its antivirus and anti-spyware software on a regular basis and in no event less often than once every month.

Service Unavailability

Access to Services may be unavailable without notice at certain times for reasons including the following:

- **Scheduled Maintenance:** there may be periods when Services and/or related systems are undergoing maintenance or upgrades. These typically occur after business hours.
- **Unscheduled Maintenance:** Services and/or related systems may be unavailable when unforeseen maintenance is necessary.
- **System events,** such as earthquakes, fires, floods, technical failures, telecommunications and internet Service provider disruptions, or electrical outages, may interrupt Service availability.

Although Umpqua will undertake reasonable efforts to promote the availability of Service, Umpqua will not be liable in any way for any unavailability or for any damage that may result from such unavailability.

Solicitation of Online Credentials

Umpqua is not now conducting, nor do we ever conduct, any email, phone, SMS text, or Internet-based requests for Customers to supply their online Credentials for any accounts. Customer shall never reveal Credentials online to any individual, including to Umpqua employees.

Accounts at Other Banks

Customer authorizes any other institutions at which Customer maintains accounts which Customer has designated as being involved in Services to be provided hereunder to release all of such account information to Umpqua.

Telephone Recording

Customer consents on behalf of itself and its agents that Umpqua may monitor and record telephone conversations in which Umpqua is a party at any time without further notice to the other parties to such conversations. The decision to record any such conversation shall be solely at Umpqua's sole discretion, and Umpqua shall have no liability for monitoring or recording or for failing to do so.

Transactions on Non-Business Days/Cutoff Times

Transactions, deposits, payment orders, entries or other requests by Customer received by Umpqua on a non-Business Day or after cutoff deadlines established by Umpqua, in its sole discretion, may be treated by Umpqua as received on the next Business Day. Umpqua may change any cutoff time or other deadline at any time. Umpqua will make a reasonable effort to notify Customer of any changes in advance.

Customer-initiated Transactions and Instructions

Umpqua will honor Customer's transactions and instructions (including adjustments, amendments and cancellations) only when Customer has complied with the TMS Agreement. Umpqua will be under no obligation to honor, either in whole or in part, any transaction or instruction that:

- Exceeds Customer's collected or available funds, on deposit with Umpqua, available through overdraft protection (available through Online Banking only), or otherwise;
- Umpqua has reason to believe may not be authorized by Customer;
- Involves funds subject to a hold, dispute or legal process preventing their withdrawal;
- Violates any law or regulation, or
- Umpqua has reasonable cause not to honor, for the protection of either Umpqua or Customer, or on any other good faith grounds.

Umpqua may elect, at its sole discretion, but shall not be obligated, to verify the authenticity or content of any instruction, transmission, or requested transaction by placing a call or electronic communication to any Authorized User or to any other person designated by Customer for such purpose, or by any other means in Umpqua's sole discretion. Umpqua may deny access to any Services or deny the processing of any instruction, transmission, or requested transaction without prior notice if Umpqua is unable to confirm to its satisfaction any such authenticity or

content or if Umpqua believes such denial is appropriate for security reasons or on other good faith grounds, all in Umpqua's sole discretion and without any liability to Umpqua in relation to such denial.

Customer Records

The TMS Agreement and the performance of Service by Umpqua shall not relieve Customer of any obligation imposed by law or contract regarding the maintenance of records or from employing adequate audit, accounting and review practices as are customarily followed by similar businesses. Customer shall make reasonable efforts to retain and provide to Umpqua, upon request, all information necessary to remake or reconstruct any deposit, transmission, file or entry for thirty (30) days following receipt by Umpqua of the deposit, file, entry, transmission or other order affecting an account.

Review Period

Customer agrees to regularly and promptly review and verify all statements, reports, Check payment records, wire transfer instructions, confirmations, adjustments, charges, and other transactions. Customer shall, within a reasonable time, which in no event shall be greater than thirty (30) calendar days following the day Umpqua first mails or otherwise makes data available to Customer ("Review Period"), notify Umpqua of any error or discrepancy between Customer's records and any information Umpqua provides to Customer about its accounts or transactions (e.g., in a statement, confirmation, or electronic report) or any transaction or transfer Customer believes was not authorized. If Customer fails to notify Umpqua of such unauthorized transaction within the Review Period, Customer agrees that the failure to report any such errors or unauthorized transactions shall relieve Umpqua of any liability for the unreported erroneous or unauthorized transaction. In accordance with NACHA Rules, Customer must report an unauthorized ACH debit entry to Customer's account by the established deadline on the Business Day following the settlement date of the unauthorized entry. Otherwise, Customer's sole recourse is to the originator of the transaction.

Training

Customer will be responsible for training its Authorized Users in the use of the applicable Services, and for supervising and auditing such use.

Indemnity of Umpqua by Customer

Customer shall indemnify and hold Umpqua harmless against all Losses and Liabilities relating, directly or indirectly, to (a) the wrongful acts or omissions of Customer (b) breach by Customer of any provision, representation or warranty of the TMS Agreement, Account Agreement, or other agreement between Customer and Umpqua, (c) the negligence or willful misconduct (whether by act or omission) of Customer, (d) any misuse of any Services by Customer, (e) any modifications made by Customer to any Umpqua-supplied hardware or software, (f) Customer's failure to comply with applicable laws and regulations, or (g) any act or omission of Umpqua that is in accordance with the TMS Agreement or instructions from Customer. With respect to the foregoing, and with respect to all other indemnification and hold harmless provisions of the TMS Agreement, of any Account Agreement, and of any other agreements between Customer and Umpqua: (a) the indemnification and hold harmless provided to Umpqua shall be deemed to also provide such indemnification and hold harmless protections to Umpqua's subsidiaries, affiliates, licensors, subcontractors, and vendors (i.e. providers of Services to Umpqua), and the directors, officers, employees, owners, legal representatives, and agents of Umpqua, of Umpqua's subsidiaries and affiliates, and of Umpqua's licensors, subcontractors, and vendors.

Limitation of Umpqua's Liability

Umpqua's liability to Customer for any Losses and Liabilities suffered by Customer arising from or in connection with any Service, or otherwise arising under or in connection with this Agreement, shall be limited to willful misconduct or gross negligence by Umpqua and to the lesser of:

- Customer's actual loss;
- The total amounts paid by Customer to Umpqua for fees and charges for the Service resulting in the liability in the three (3) month period preceding the date the claim accrued; or
- Such lesser amount as may be set forth in these Terms and Conditions or any Service User Documentation.

UMPQUA MAKES NO WARRANTIES, EXPRESS OR IMPLIED, IN LAW OR IN FACT, INCLUDING WITHOUT LIMITATION, THE IMPLIED WARRANTIES OF FITNESS FOR A PARTICULAR PURPOSE AND OF MERCHANTABILITY, EITHER TO CUSTOMER OR TO ANY OTHER PARTY WITH RESPECT TO THE SERVICES PROVIDED BY UMPQUA OR WITH RESPECT TO SOFTWARE PRODUCTS PROVIDED, OR MADE AVAILABLE TO THE CUSTOMER FOR ITS USE IN CONNECTION WITH THIS AGREEMENT AND ANY SERVICE.

Subject to the foregoing, Umpqua's liability relating to any Service shall be limited exclusively to actual proven damages arising directly from Umpqua's own gross negligence or willful misconduct. IN NO EVENT WILL UMPQUA OR ANY PROVIDER BE LIABLE FOR ANY SPECIAL, CONSEQUENTIAL, INCIDENTAL, INDIRECT, PUNITIVE OR

SIMILAR LOSSES OR DAMAGES, WHETHER ANY CLAIM IS BASED ON CONTRACT OR TORT, WHETHER THE LIKELIHOOD OF SUCH LOSSES OR DAMAGES WAS KNOWN TO UMPQUA OR ANY PROVIDER, AND REGARDLESS OF THE FORM OF THE CLAIM OR ACTION (INCLUDING ANY CLAIM OR ACTION ALLEGING GROSS NEGLIGENCE, WILLFUL MISCONDUCT, FAILURE TO EXERCISE REASONABLE CARE OR FAILURE TO ACT IN GOOD FAITH). In addition:

- Umpqua's maximum liability for loss of interest shall be calculated using a rate equal to the average Federal Funds rate at the Federal Reserve Bank of New York for the period involved.
- Notwithstanding the foregoing, Umpqua shall not be liable for any Losses and Liabilities caused, directly or indirectly, in whole or in part, (i) by the action or inaction of Customer, or of any agent or employee of Customer, whether or not such action or inaction constitutes negligence or a breach of this Agreement. (ii) by any inaccuracy or incompleteness in the input of any instruction or other communication by Customer; or (iii) by any modification, change or cancellation (or attempted modification, change or cancellation) by Customer of an Instruction.
- Umpqua shall not be liable for any Losses and Liabilities or delay caused by accident, strike, fire, flood, war, riot, act of terrorism, equipment breakdown, electrical or mechanical failure, acts of nature, legal constraint, interruption of transmission or communication facilities, pandemic event (which includes the fear of contracting an illness), emergency conditions or other act of God, or any other cause which is attributable to a third party and is reasonably unavoidable or beyond Umpqua's reasonable control.
- Umpqua's Third-Party Service Providers are expressly recognized as third-party beneficiaries.

Customer agrees that the fees charged for the performance of the Services shall be deemed to have been established in contemplation of these limitations of liability. Customer acknowledges that the reconstruction of events causing Customer to sustain damages becomes difficult and may be inaccurate more than one (1) year following the occurrence of such events. Therefore, Customer agrees that any claim, action, suit or proceeding against Umpqua for damages resulting in any respect from its acts or omissions in the performance of the Services must be brought within one (1) year from the date of Umpqua's alleged act or omission and Customer shall have no right to bring any such claim thereafter. However, if Oregon law does not allow time-barring of claims despite statute of limitations, then all claims, actions, suits or proceedings against Umpqua shall be brought within the shortest period of time which Oregon's laws allow for agreements limiting periods of time for the filing of suits. Customer agrees to immediately notify Umpqua of any claim by Customer, or any claim that is made to Customer by a third party that any act or omission by Umpqua in connection with any Service that has caused Customer or such third party to sustain any damages.

Customer agrees that in addition to other limitations on Umpqua's liability herein, Umpqua will not be liable for any Losses and Liabilities arising, directly or indirectly, in whole or in part from the following:

- Any inaccuracy or incompleteness in the input of any Communication by Customer;
- Any failure by Customer to obtain a confirmation of an order or instruction; or
- Any cancellation or attempted cancellation by Customer of an order or instruction.

Subject to the requirements of Section 624 of the Fair Credit Reporting Act, Customer authorizes Umpqua to share information with Umpqua's affiliates about Customer's accounts or Services for regulatory compliance, credit decision-making and administrative purposes and to facilitate the marketing of other Umpqua products or Services.

Customer acknowledges that Umpqua's agreement to provide Services based on the applicable fees shall be deemed to have been made in reliance upon all the terms of the TMS Agreement, including in particular the foregoing limitation of liability.

Warranty Disclaimer

The TMS Agreement is a Service agreement. OTHER THAN ANY EXPRESS REPRESENTATIONS AND WARRANTIES THAT MAY BE MADE IN WRITING BY UMPQUA NOW OR IN THE FUTURE, UMPQUA DISCLAIMS ALL REPRESENTATIONS OR WARRANTIES, EXPRESS OR IMPLIED, MADE TO CUSTOMER OR TO ANY OTHER PERSON OR ENTITY, INCLUDING WITHOUT LIMITATION, ANY WARRANTIES REGARDING QUALITY, SUITABILITY, MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, FREEDOM FROM ERROR, TIMELINESS, OR NON-INTERRUPTION OF SERVICE, OR ANY IMPLIED WARRANTIES ARISING FROM COURSE OF PERFORMANCE, COURSE OF DEALING, USAGE OF TRADE, OR OTHERWISE REGARDING ANY SERVICES OR ANY GOODS PROVIDED INCIDENTAL TO THE SERVICES.

Imputation

Customer shall be responsible, for all purposes, for the acts and omissions of: (a) all of Customer's employees and agents, and (b) any other persons who gain access to Services through the use of: (i) information received from Customer or from any of Customer's employees, subcontractors, or agents, or (ii) any telecommunication or computer systems of Customer or of any of Customer's employees, subcontractors, or agents. All of the acts and omissions described in the foregoing shall be imputed to Customer.

Dispute Resolution

All disputes, claims and controversies between the parties, whether individual, joint or class in nature, arising from this Agreement or otherwise, including without limitation contract and tort disputes, shall be resolved by arbitration in accordance with the then effective arbitration rules of (and by filing a claim with) Arbitration Service of Portland, Inc., and judgment upon the award rendered pursuant to such arbitration may be entered in any court having jurisdiction thereof. Nothing herein shall preclude any party from seeking equitable relief from a court of competent jurisdiction. The statute of limitations, estoppel, waiver, laches and similar doctrines which would otherwise be applicable in an action brought by a party shall be applicable in any arbitration proceeding and the commencement of an arbitration proceeding shall be deemed the commencement of an action for these purposes. The Federal Arbitration Act shall apply to the construction, interpretation and enforcement of this arbitration provision. Any arbitration hearing shall be held in Portland, Oregon, as selected by Umpqua in its sole discretion.

UMPQUA AND CUSTOMER HEREBY WAIVE TRIAL BY JURY IN ANY JUDICIAL PROCEEDING INVOLVING DIRECTLY OR INDIRECTLY, ANY MATTER (WHETHER IN TORT, CONTRACT OR OTHERWISE) IN ANY WAY ARISING OUT OF, RELATED TO OR CONNECTED WITH THIS AGREEMENT OR THE SERVICES OFFERED OR PROVIDED HEREUNDER.

Governing Law and Jurisdiction.

This Agreement and its interpretation and enforcement shall be governed by the laws of the State of Oregon (to the extent not preempted by federal law), and the copyright, patent, and trademark laws of the United States. Customer and Umpqua hereby consent and submit to the exclusive jurisdiction of any Oregon district federal court or any Oregon state court with respect to any litigation or arbitration arising out of or relating to this Agreement or its terms. This Agreement shall be deemed approved and made in the State of Oregon. Any judgment or order given by the courts located in the State of Oregon may be entered and docketed in any court where the Customer or Umpqua may be found for the purposes of enforcement of any such judgment.

Attorney's Fees

In the event of a dispute arising out of or relating to this Agreement, or in the event that arbitration, suit, or action is instituted to enforce or interpret the terms of this Agreement, the prevailing party in such arbitration, suit, or action, or on any appeal of such arbitration, suit, or action, shall be entitled to an award of his costs, disbursements, arbitration fees and reasonable attorney fees (including the fees of Umpqua's in-house attorneys calculated at hourly rates charged by attorneys in private practice with comparable skill and experience), as set by the arbitrator, trial court, or appellate court in which the matter is heard or decided, including reasonable attorney fees and the anticipated cost of collection of any judgment.

Adverse Claims

If Umpqua receives an adverse claim against any account, and Umpqua believes in its sole discretion that Umpqua will not be protected if the claim is ignored, Umpqua may place a hold on the account and Umpqua shall have no liability regarding such hold (including for dishonored transactions due to the hold or for Customer's inability to use the account), and Customer shall reimburse Umpqua all costs, including attorney fees, incurred due to such adverse claim.

Relationship Between Parties

The TMS Agreement will not be construed as creating an agency, partnership, joint venture, or any other form of association or fiduciary relationship between the parties. Except as expressly agreed by the parties in writing, neither party will have any right or authority, express or implied, to assume or create any obligation of any kind, or to make any representation or warranty, on behalf of the other party or to bind the other party in any respect whatsoever.

Third Party Service Providers

1. Third Party Networks

Some Services are provided by Umpqua through access to a third-party network. Such Services are dependent upon the availability of the third-party network on conditions acceptable to Umpqua. Umpqua reserves the right to discontinue Services or provide Services through an alternative third-party network and shall have no liability if the original or any replacement network becomes unavailable. Umpqua does not warrant and shall not be responsible for Services received by Customer from or through any third-party network.

2. Third Party Vendors

Some Services and/or computer equipment and software are provided to Customer by a third-party vendor selected by Customer who is unaffiliated with Umpqua. In those cases, the third-party vendor is acting as Customer's agent rather than Umpqua's agent, and Customer agrees to be bound by and responsible for such third party's acts and omissions to the same effect as if Customer had engaged in such acts and omissions. Umpqua does not warrant and shall not be responsible for Services provided by unaffiliated third-party vendors. Customer authorizes Umpqua to disclose to any third-party vendor information concerning Customer to the extent required to deliver the requested Service.

Force Majeure

No party shall be liable for any default or delay in the performance of its obligations or otherwise under the TMS Agreement if and to the extent such default or delay is caused, directly or indirectly, by: (i) fire, flood, elements of nature, or acts of God; (ii) any outbreak or escalation of hostilities, war, riot, terrorist act, or civil disorders in any country; (iii) any act or omission of the other party or any government authority; or (iv) failures or fluctuations in telecommunications or other equipment. In any such event, the non-performing party shall be excused from any further performance and observance of the obligations so affected only for as long as such circumstances prevail and such party continues to use commercially reasonable efforts to recommence performance or observance as soon as practicable. Notwithstanding the foregoing, nothing shall affect your payment obligations for Services we provide to you before such default or delay in the performance of our obligations under the TMS Agreement. Umpqua shall have no responsibility for transmitting Entries that would result in Umpqua: (a) exceeding its limitation on intra-day net funds position established by the Federal Reserve System; or (b) otherwise violating any provision of any present or future risk control program of the Federal Reserve System or any law or regulation of any other governmental or regulatory authority.

Notices

All written notices to Umpqua shall be delivered or mailed to the address designated by Umpqua. Notices sent to Customer shall be sent to Customer's current lead account address or other known address if deemed more appropriate by Umpqua in its sole discretion under the circumstances. Notices may be delivered to Customers electronically or by phone in Umpqua's sole discretion.

Severability

If any provision of the TMS Agreement is held to be invalid, illegal or unenforceable, such provision shall be ineffective only to the extent of such invalidity, illegality or unenforceability, without rendering invalid, illegal or unenforceable the remainder of any such provision or the rest of the TMS Agreement, and such provision shall be deemed modified so as to make it valid, legal and enforceable in the manner as best advances the spirit of the TMS Agreement.

Waiver

Except as otherwise provided in the TMS Agreement, no part of the TMS Agreement or any breach thereof may be waived unless through a writing signed by the party against whom such waiver is to be enforced.

Assignment

Umpqua may at any time assign or delegate any or all its rights or obligations under the TMS Agreement to any other person or entity. Customer may not assign or delegate any or all its rights or obligations under the TMS Agreement to any other person or entity without Umpqua's written consent.

Amendments

Except as otherwise provided in the TMS Agreement, the TMS Agreement may not be amended except by a writing signed by the party against whom such amendment is to be enforced. Except as otherwise provided to the contrary elsewhere in the TMS Agreement, the TMS Agreement may be amended by Umpqua from time to time upon thirty (30) days notice to Customer and any such amendment shall be effective on the effective date specified in the notice to Customer. Notices may be delivered to Customers electronically in Umpqua's sole discretion

Survival

All indemnities, limitations of liability, and remedy exclusions provided in the TMS Agreement shall survive the expiration or termination of the TMS Agreement.

Compliance with Laws

Customer will comply with all applicable laws, rules and regulations

Construction

The captions contained in the TMS Agreement are for the convenience of the parties and shall not be construed or interpreted to limit or otherwise define the scope of the TMS Agreement. The word “including” shall mean “including, but not limited to.” The rule of construing ambiguities against the drafter shall not apply.

Counterparts

Any agreement or other document regarding any Services hereunder may be executed in one or more counterparts (by handwritten signature or electronically), each of which shall be deemed to be an original, such all of which shall constitute one and the same instrument.

Termination

Unless otherwise expressly stated in the Service-specific section of these Terms & Conditions, Services may be terminated by either party upon 30 days' prior written notice to the other party. Umpqua may also immediately terminate or suspend any or all Service without notice to Customer and without any liability to Umpqua if any of the following occurs: (a) Customer becomes insolvent or files, or has filed against it, any bankruptcy or other insolvency, reorganization, liquidation, receivership, dissolution, or like proceeding; (b) a material adverse change occurs in Customer's business or financial condition; (c) Umpqua has reason to believe that Customer has engaged in fraudulent or illegal activity; (d) Customer fails to maintain balances in accounts, or access to other funds through overdraft protection, sufficient to cover overdrafts; (e) Customer breaches any warranty, representation, or covenant of the TMS Agreement or any other agreement or arrangement with Umpqua, or if Umpqua determines, in Umpqua's sole discretion, that Customer has abused its privileges under the TMS Agreement; (f) Customer fails to provide financial information reasonably requested by Umpqua; (g) Umpqua determines it is impractical or illegal to provide any Service; or (h) Umpqua, in good faith, is unable to satisfy itself that any Service has been properly authorized by Customer. Umpqua shall also have the additional termination rights provided throughout the TMS Agreement. Whenever Umpqua has a right to terminate any Service (whether under the TMS Agreement or otherwise), Umpqua may terminate that and any or all other Services in its sole discretion without any liability to Umpqua. Notwithstanding any termination, the TMS Agreement and all other applicable agreements shall apply to all transactions which were initiated before termination.

Terms & Conditions

Applicable to specific Treasury Management Services

Account Reconciliation Services

Umpqua's full, partial and deposit reconciliation Services (the "Account Reconciliation Services") are available through Business Online Banking to help manage the credit and debit activity in your account(s). Detailed information regarding such Account Reconciliation Services is available in the applicable User Documentation.

Your use of Account Reconciliation Services does not affect any of your obligations which are described in the applicable Account Agreement, to discover and report with respect to your account(s) any: (i) unauthorized signatures, alterations or endorsements on checks and (ii) unauthorized requests and other discrepancies. Your use of these Account Reconciliation Services or our receipt of information associated with these Account Reconciliation Services does not modify any existing Umpqua obligations with respect to your account(s) or the payment of checks.

Automated Clearing House (ACH)

1. General Terms and Compliance

Customer may initiate credit or debit Automated Clearing House transactions for payments (Credit Entries) and/or collections (Debit Entries) on Business Days to Customer's accounts or the accounts of others ("Receivers"). Umpqua will act as an ODFI regarding such Entries. Umpqua may process Entries directly, through an ACH Operator, or through another mechanism selected by Umpqua. Customer shall not initiate any Entry in violation of NACHA Rules or any applicable law or regulation, including Regulation E promulgated by the Federal Reserve Board and regulations promulgated by OFAC. A copy of the Corporate Edition of the NACHA Rules can be purchased from NACHA at www.NACHA.org. Customer agrees to obtain a copy, to understand and be familiar with the NACHA Rules, and to be responsible for keeping up to date with changes in the NACHA Rules.

Customer agrees that information or advice received by Customer from Umpqua as to the NACHA Rules (including Part III A, B or C) or the operation of the NACHA Rules is not legal advice and is not a substitute for Customer's obligation independently to understand and comply with the NACHA Rules. If any provision of this TMS Agreement is inconsistent with the NACHA Rules, Customer shall comply with any applicable NACHA Rule(s) to the extent of the inconsistency and shall immediately notify Umpqua of that fact.

2. Entry Origination / Processing Dates / Deadlines

Customer's Entries must be initiated in the manner and format specified by Umpqua. Umpqua will establish a deadline for the receipt of Entries from Customer. Umpqua may establish different deadlines for Entries depending on the method of delivery employed by Customer and all such deadlines are subject to change by Umpqua. Umpqua must receive Customer's Entries before the applicable deadline or else they will not be processed until the next Business Day. Entries with Settlement Dates of more than thirty (30) calendar days from receipt will not be processed unless agreed to by Umpqua in writing.

Customer may not originate Entries using Standard Entry Class Codes other than CCD, CTX and PPD without prior written notice to and approval by Bank. Bank may require an application in form and content acceptable to Bank, and execution by Customer of such supplemental schedules, agreements and other documents as Bank may require, as a condition precedent to Customer's use of other Standard Entry Class Codes. By way of example, the foregoing restrictions and requirements may apply to Customer's use of Represented Check Entry (RCK), Automated Enrollment Entry (ENR), Accounts Receivable Entry (ARC), Back Office Conversion Entry (BOC), Customer Initiated Entry (CIE), Point-of-Purchase (POP), Internet-Initiated Web (WEB), International ACH Transactions (IAT), or Telephone-Initiated Entry (TEL) Standard Class Codes. If Customer is originating same day Entries, Customer will not submit Entries with the same Effective Entry Date, to any single transit routing and account number exceeding \$25,000.00. If Entries exceed \$25,000.00 to any account, the Entries will be converted to next available Business Day settlement.

3. Content

In submitting any Entry, Customer shall be responsible for providing all information required by Umpqua. Customer bears sole responsibility to verify that the information in Entries is authentic, accurate and conforms to NACHA Rules. Services hereunder are only designed to respond to information provided by Customer. Accordingly, any error (including any inaccuracy or incompleteness) or non-compliance in any information provided by Customer may result in payment or collection other than as intended by Customer. Umpqua shall bear no responsibility for detecting or reporting any error or non-compliance in any Entry or in any information otherwise supplied by Customer, and Umpqua shall not be liable to Customer or any third party for any such error or non-compliance.

4. Transmittal of Entries by Customer

Customer shall deliver to Umpqua via online Banking unless otherwise approved by Umpqua, in a format specified by Umpqua, an electronic transmission containing the names of all Receivers and their associated RDFIs, RDFI routing numbers, Receiver RDFI account numbers, and amounts to be credited to or debited from each account.

The total dollar amount of Customer's Entries shall not exceed the applicable limits as Umpqua may establish from time to time. Such limits may vary depending on various factors, including: (a) whether the Entries are credit or debit Entries; (b) the Standard Entry Class Code (as defined by the NACHA Rules) for the Entries; and (c) whether Customer's account is required to be pre-funded. Limits may be established for daily amounts and across other time lines. Limits may be amended, reduced, modified or otherwise changed

at any time, with or without cause or prior notice to Customer. Limits, and any changes to them, will be communicated by Umpqua to Customer via a communication, which may be electronic or paper.

5. Processing, Transmittal and Settlement by Umpqua

Provided Customer complies with the TMS Agreement, including the transmittal requirements of Section 4 above, Umpqua shall: (i) process Entries received from Customer that comply with NACHA Rules, (ii) transmit such Entries as an ODFI to the ACH Operator, (iii) settle such Entries as provided in NACHA Rules, and (iv) credit or debit the Receiver's account in the amount of such Entry on the Effective Entry Date. Umpqua shall transmit such Entries to the ACH Operator on or before one Business Day before the Effective Entry Date shown in such Entries, provided that the Effective Entry Date is at least one day after such Business Day, and the ACH Operator is accepting Entries on such Business Day. Entries shall be deemed received by Umpqua when the transmission is made in accordance with the TMS Agreement. Umpqua will not be liable for any acts or omissions of any third parties involved in the processing of Entries, including the ACH Operator.

6. Settlement

Customer shall pay Umpqua the amount of each Credit Entry transmitted by Umpqua. Customer shall reimburse Umpqua the amount of each Debit Entry that has been returned by an RDFI. Payment of Credit Entries shall be made as of the Settlement Date. Customer authorizes Umpqua to debit the accounts at the opening of business on the applicable Settlement Date in the amount of each Entry. Umpqua may, without prior notice or demand, obtain payment of any amount due and payable to it under the TMS Agreement by debiting the accounts, and shall credit the accounts for any amount received by Umpqua by reason of the return of an Entry transmitted by Umpqua for which Umpqua has previously received payment from Customer. Customer shall at all times maintain a balance of available funds in the accounts sufficient to cover Customer's obligations under the TMS Agreement. If there are insufficient available funds in the accounts to cover Customer's obligations under the TMS Agreement, Umpqua may: (a) debit any account that Customer has at Umpqua; or (b) set off against any amount it owes to Customer. Customer acknowledges that, under NACHA Rules, payment of an Entry by an RDFI to the Receiver is provisional until receipt by the RDFI of final settlement for such Entry. If such final settlement is not received, the RDFI shall be entitled to a refund from the Receiver of the amount credited and Customer shall not be deemed to have paid the Receiver the amount of the Entry.

7. Settlement Account

Unless otherwise permitted by Umpqua in writing, at Umpqua's sole discretion, Customer must maintain an account at Umpqua for ACH settlement.

8. Customer Representations and Warranties

As to each Entry, Customer represents and warrants that: (i) Customer is authorized to make the Entry on the Effective Entry Date; (ii) the Entry is valid and has been completed in accordance with all requirements of the TMS Agreement, including in compliance with NACHA Rules; (iii) Customer has sufficient collected, non-contingent funds in the account to accommodate the Entry; (iv) the Entry is not initiated for any personal, family or household purposes; (v) if the Entry is a Debit Entry, no third party has a defense, right of offset, or counterclaim against such Entry; and (vi) Customer shall allow the ODFI to audit its compliance with the NACHA Rules and the terms of this Agreement.

9. Authorized Entries

If an Entry received by Umpqua purports to have been transmitted or authorized by Customer, it will be deemed effective as Customer's Entry and Customer shall be obligated to pay Umpqua the amount of such Entry as provided herein even though the Entry was not authorized by Customer, provided Umpqua had no actual knowledge that the Entry was unauthorized by Customer. If Umpqua has actual knowledge that an Entry is unauthorized by Customer, but Umpqua has insufficient time to cancel such Entry, the Entry shall be deemed effective as Customer's Entry and Customer shall be obligated to pay Umpqua the amount of such Entry as provided herein. If an Entry received by Umpqua was transmitted or authorized by Customer, Customer shall be obligated to pay the amount of the Entry as provided herein, whether or not that Entry was erroneous in any respect.

10. ACH Redeposit Service

If requested by Customer, Umpqua may, but shall not be obligated to, reinitiate a Debit Entry returned for insufficient or uncollected Funds. Umpqua shall also have the right to reinitiate such an Entry absent such a Customer request.

11. International ACH Transactions (“IATs”)

Umpqua will facilitate IAT Credit or Debit Entries to Receivers located in foreign countries approved and facilitated by the ACH Operator. Customer acknowledges that the completion of Credit or Debit Entries to or through a foreign country may or may not occur and the results of such Entries may be different from those experienced through the domestic system and Customer accepts those risks. Customer specifically bears the risk for any fluctuation in foreign exchange rates and any fees that may be imposed in or by the foreign country. Customer also bears the risk of returned Entries for a period of twelve (12) months from the Settlement Date. Customer also agrees that IAT entries may not be dishonored, reversed, or settled upon a specific date, and that the return of non-settled Entries from foreign countries are subject to the laws and regulations within that country and NACHA Rules.

Umpqua is not responsible for the transmission or settlement of Entries on foreign holidays or other days in which foreign countries may not process Entries. IAT Credit or Debit Entries are not eligible for same day ACH processing. Customer is responsible for complying with OFAC regulations regarding payments to and from individuals and entities.

12. Health Savings Accounts

If Customer is using the Services regarding employer contributions to Health Savings Accounts, Customer acknowledges that the use by the Customer of Entries containing certain identifying codes in discretionary data fields for purposes of identifying employer contributions to Health Savings Accounts will be acknowledged only when Umpqua: (a) has agreed to acknowledge such codes in writing; (b) has accepted the proposed codes in writing; and (c) is the Receiving Depository Financial Institution of the Entry at issue. Such codes shall have significance only to Umpqua and to the Customer, and shall have no significance when Umpqua is not the RDFI.

13. Pre-notification

To the extent required by NACHA Rules, Customer shall send pre-notification that it intends to initiate an Entry to a particular account in accordance with the procedures provided by NACHA Rules and by Umpqua. The pre-notification can be returned or result in a Notification of Change. If the pre-notification is returned, Customer shall research the problem and make any necessary corrections before transmitting another Entry. If the pre-notification results in a Notification of Change, Customer shall make the required change before initiating another Entry, or issue a Refused Notification of Change as outlined in NACHA Rules.

14. Prefunding ACH Entries

We generally debit your account on the Settlement Date for Credit Entries (including Debit Reversals), unless you are prefunding your Entries. “Prefunding” means that you are required to pay for all credit Entries before the settlement date as we may specify. We may, at our discretion, without prior notice to you, require Prefunding before we process your credit Entries. We are not obligated to process any credit Entries, even if we have done so in the past, without having first been paid by you, but, if we do, the amount is immediately due and payable without notice or demand.

Upon initiation of prefunded Entries, Umpqua is authorized to charge Customer’s account(s) in the total amount of such Entries. Funds received by Umpqua for this purpose shall be held in an account owned and controlled by Umpqua until the relevant Settlement Date. Customer acknowledges and agrees that such funds are held solely for the benefit of Umpqua and that Customer will not be entitled to earn any interest thereon.

15. Rejected, Returned, and Unauthorized Entries

Receiver authorizations shall authorize Umpqua to transmit corrective entries to Receiver’s accounts to correct a prior Entry and shall authorize Customer to release to Umpqua all information concerning its Receivers that is required by Umpqua to recover such Entries. Customer shall immediately cease initiating Entries upon receiving actual or constructive notice of the termination or revocation of a Receiver’s authorization. Customer will retain each authorization received by Customer for such period of time as may be required by NACHA Rules or applicable law or regulation and shall provide Umpqua with copies of such authorizations upon request. Umpqua may reject any Entry that is not initiated in accordance with the TMS Agreement. If an Entry is rejected, or returned by an ACH Operator, for any reason whatsoever, it shall be Customer’s responsibility to remake the Entry. Umpqua is authorized to debit or credit the account for Entries that are returned to Umpqua. Customer shall not be entitled to interest on the amount of any returned Entry debited from the account. A Receiver may, in some cases, have the right to have an unauthorized or erroneous Debit Entry credited to its account. Umpqua may deduct the amount owing to the Receiver from Customer’s account upon Umpqua’s receipt of proper notice of such crediting from the

Receiver. Umpqua may charge back against Customer any Debit Entry that is returned or reversed. Except for rejected Entries that are resubmitted to Umpqua in compliance with the TMS Agreement, Umpqua shall have no obligation to retransmit a rejected or returned Entry.

16. Cancellation, Amendment or Reversals by Customer

Customer shall have no right to cancel or amend any Entry after it is received by Umpqua. However, if Umpqua elects to act on a request by Customer to cancel or amend an Entry before transmitting it to the ACH Operator or, in the case of an On-Us Entry, before crediting a Receiver's account, Umpqua shall have no liability if such cancellation or amendment is not affected. Customer acknowledges that Umpqua will act upon or respond to any requested or attempted Entry reversals in accordance with NACHA Rules.

17. Inconsistency of Name and Account Number

If an Entry describes the Receiver inconsistently by name and account number, payment of the Entry transmitted by Umpqua to the RDFI might be made by the RDFI (or by Umpqua in the case of an On-Us Entry) on the basis of the account number even if it identifies a person or entity different from the named Receiver, and Customer's obligation to pay the amount of the Entry to Umpqua shall not be excused in such circumstances. Customer shall indemnify and hold Umpqua harmless against all Losses and Liabilities relating, directly or indirectly, to the processing by an RDFI of an Entry in which the Receiver is described inconsistently by name and account number.

18. Indemnification

Customer shall indemnify and hold Umpqua harmless against any NACHA or ACH Operator fines or fees and all Losses and Liabilities relating, directly or indirectly, to any breach of by Customer or by Customer's agents of the TMS Agreement (whether a breach of representation, warranty, or covenant), or relating to Customer's or Customer's agent's negligence or willful misconduct.

Automated Clearing House (ACH) Blocks

With the ACH Blocks Service, Customer will provide us with authorization criteria for ACH Entries Customer desires to receive for debit or credit to Customer's account. We will automatically return any Entry which does not meet Customer's authorization criteria. If ACH Blocks is terminated for any reason, we will no longer be obligated to monitor Entries against your authorization criteria.

1. ACH Blocks

Until such time as Customer has requested, in writing, that Umpqua remove a block on any ACH transaction, any person or entity identified by the Customer will not be permitted access to Customer's account for purposes of ACH transactions, whether debit or credit. Umpqua shall have no liability or other obligation to Customer regarding any refusal to honor or refusal to otherwise permit ACH transactions originated by any such persons. Customer understands and agrees that, as between Customer and Umpqua, it is Customer's sole responsibility to notify Umpqua, in writing, of any changes to the ACH transactions Customer has requested Umpqua to block and to not post, as either debits or credits, as the case maybe, to Customer's account.

Customer shall indemnify and hold Umpqua harmless against all Losses and Liabilities relating, directly or indirectly, to, Customer's use of the ACH Block Service, including any relating to delay in posting of credits to or debits from Customer's account, any losses, late fees, collection charges, holds on accounts, or loss of good will, or harm to Customer's reputation, with its suppliers, vendors, business partners, or other persons or entities.



Finance /Administrative Committee Agenda Item: 6

Date: April 08, 2019

Subject: Lessons from City of Lincoln State Audit

Staff Contact: Timothy R. Shaw, General Manager

Recommended Committee Action:

No action is required nor expected for this item. The item is intended as opportunity to learn from other agencies.

Current Background and Justification:

There were several public policy shortcomings and high-level staff turnovers that led to the State audit of the City of Lincoln. The audit was published on 3-21-2019. The audit is very candid and transparent. Auditors don't spin.

Particularly noteworthy elements of the Lincoln audit include the failures to update fees to reflect the cost of providing services and the overcharging of capacity fees, as well as the mishandling of those capacity fees.

Conclusion:

I recommend the Finance/Admin Committee review the Lincoln audit and provide feedback as appropriate.



City of Lincoln

Financial Mismanagement, Insufficient Accountability,
and Lax Oversight Threaten the City's Stability

March 2019

REPORT 2018-110





CALIFORNIA STATE AUDITOR

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March 21, 2019
2018-110

The Governor of California
President pro Tempore of the Senate
Speaker of the Assembly
State Capitol
Sacramento, California 95814

Dear Governor and Legislative Leaders:

As requested by the Joint Legislative Audit Committee, the California State Auditor presents this audit report pertaining to the city of Lincoln and its administration of public funds and assets. This report concludes that Lincoln's mismanagement of public funds, insufficient accountability, and inadequate oversight threatens its financial stability. Specifically, the city made questionable loans, transfers, and allocations during fiscal years 2013–14 through 2016–17 that did not always follow state law. The city used reserves from restricted funds designated for specific purposes for unrelated interfund loans and transfers, even though it was not able to demonstrate that the borrowing funds could repay them. Additionally, Lincoln misrepresented its financial position by temporarily transferring amounts from a restricted fund to offset significant year-end deficits, thereby presenting those funds as if they were solvent.

Lincoln also overcharged developers and builders for the cost of water infrastructure and capacity, which resulted in the city accumulating nearly \$41 million in its water connections fund as of June 2017. In addition, Lincoln undercharged developers for city staff costs to administer development projects. Until fiscal year 2018–19, Lincoln based these charges on cost data from 13 years ago, even though staff costs have increased by an average of 6 percent per year since that time. Further, Lincoln failed to pay for its own use of municipal utilities and instead passed these costs on to ratepayers, violating provisions of the state constitution. Although the city acknowledged that it should have paid more than \$1.6 million for its share of water, sewer, and solid waste services during a four-year period from January 2014 to February 2018, it has yet to provide equitable consideration to its ratepayers.

Finally, Lincoln did not establish or consistently follow key policies and procedures to ensure compliance and transparency in its financial practices, which resulted in questionable spending and management of public funds. In each of its past several financial audits, Lincoln's external financial auditor reported recurring deficiencies, including the city's inability to accurately prepare its financial statements at the end of each fiscal year.

Respectfully submitted,

A handwritten signature in cursive script that reads 'John Billington'.

JOHN BILLINGTON
Chief Deputy State Auditor

Selected Abbreviations Used in This Report

CAFR	comprehensive annual financial report
GFOA	Government Finance Officers Association

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SUMMARY

Incorporated in 1890, the city of Lincoln operates under the council-manager form of government: its city council is responsible for its governance, while a city manager oversees the city’s operations. From 2000 through 2010, Lincoln was one of the fastest growing cities in the nation, expanding from 11,000 to 43,000 residents. However, by the end of the decade, the local and national economies were in decline, and Lincoln’s development was severely curtailed. The city experienced significant fiscal challenges as a result. In fact, Lincoln fully depleted its unrestricted general fund balance in fiscal year 2008–09, although it had increased the balance to \$8.7 million by fiscal year 2016–17. In recent years, a citizens group raised concerns related to Lincoln’s finances, including its interfund loans and transfers, the fees it charged the public, its use of municipal utilities, and its general management of public funds. Our report concludes the following:

Lincoln Made Questionable Loans, Transfers, and Allocations That Did Not Always Comply With State Law

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Lincoln established restricted funds related to its different functions to ensure that it uses the revenue it receives for the purposes for which that revenue was intended. However, it used those funds to make unrelated interfund loans and transfers that it may not be able to repay. Further, as a result of loans and transfers, the city misrepresented the financial position of several funds: although these funds had year-end deficits, the loans and transfers made them appear as though they had positive fund balances. Finally, Lincoln violated the state constitution by using surplus revenue that property owners in certain areas paid in landscaping and lighting assessments to cover costs associated with properties in other areas.

Lincoln Did Not Accurately Charge the Public for Certain City Services

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Lincoln overcharged developers and builders for water infrastructure and capacity, thereby accumulating a fund balance of nearly \$41 million as of June 2017. Further, Lincoln undercharged the public for other services, such as building inspections and permit administration. Lincoln also violated provisions of the state constitution by failing to pay for its own use of municipal utilities, including water, sewer, and trash collection; it instead passed these costs on to ratepayers through increased utility rates. Lincoln has not refunded or provided equitable consideration to ratepayers for the increases in their rates resulting from the city’s use of utilities.

Lincoln Did Not Establish or Consistently Follow Key Policies and Procedures to Ensure the Appropriate Management of Public Funds

Lincoln lacks key policies and procedures to ensure consistency, compliance, and transparency in its financial practices. Moreover, Lincoln did not follow its existing policies by obtaining the appropriate approval from the city manager or the city council for expenditures, resulting in questionable spending.

In addition, we reviewed the city's failure to update its master fee schedule and its inability to substantiate fee credits it granted to developers, as well as other issues related to its investment portfolio and a councilmember's activities. We found that Lincoln could improve its processes in some of these areas, and we present the related recommendations in the section of this report titled Other Areas We Reviewed beginning on page 33.

Summary of Recommendations

To ensure that it complies with state law, Lincoln should immediately review all outstanding interfund loans and confirm that the loans can be repaid.

To comply with state law, Lincoln should immediately discontinue using restricted funds to subsidize other unrelated funds that have year-end deficits.

To ensure that its fees are commensurate with the cost of providing services, Lincoln should develop and begin following by June 2019 a timeline for conducting fee studies of each of its services.

Lincoln should develop a plan to provide equitable consideration to ratepayers for the utility costs they incurred that were higher than necessary because of the city's practice of not paying for its own municipal utilities.

Lincoln should establish and follow policies and procedures for financial practices recommended by the Government Finance Officers Association.

The city manager should immediately develop and implement procedures for staff to obtain and document the required approval from the city manager or the city council before committing city resources.

Agency Comments

Lincoln agreed with all of our recommendations and indicated that it has already begun implementing some of them. We look forward to reviewing Lincoln's 60-day, six-month, and one-year responses to our recommendations to evaluate its progress.

INTRODUCTION

Background

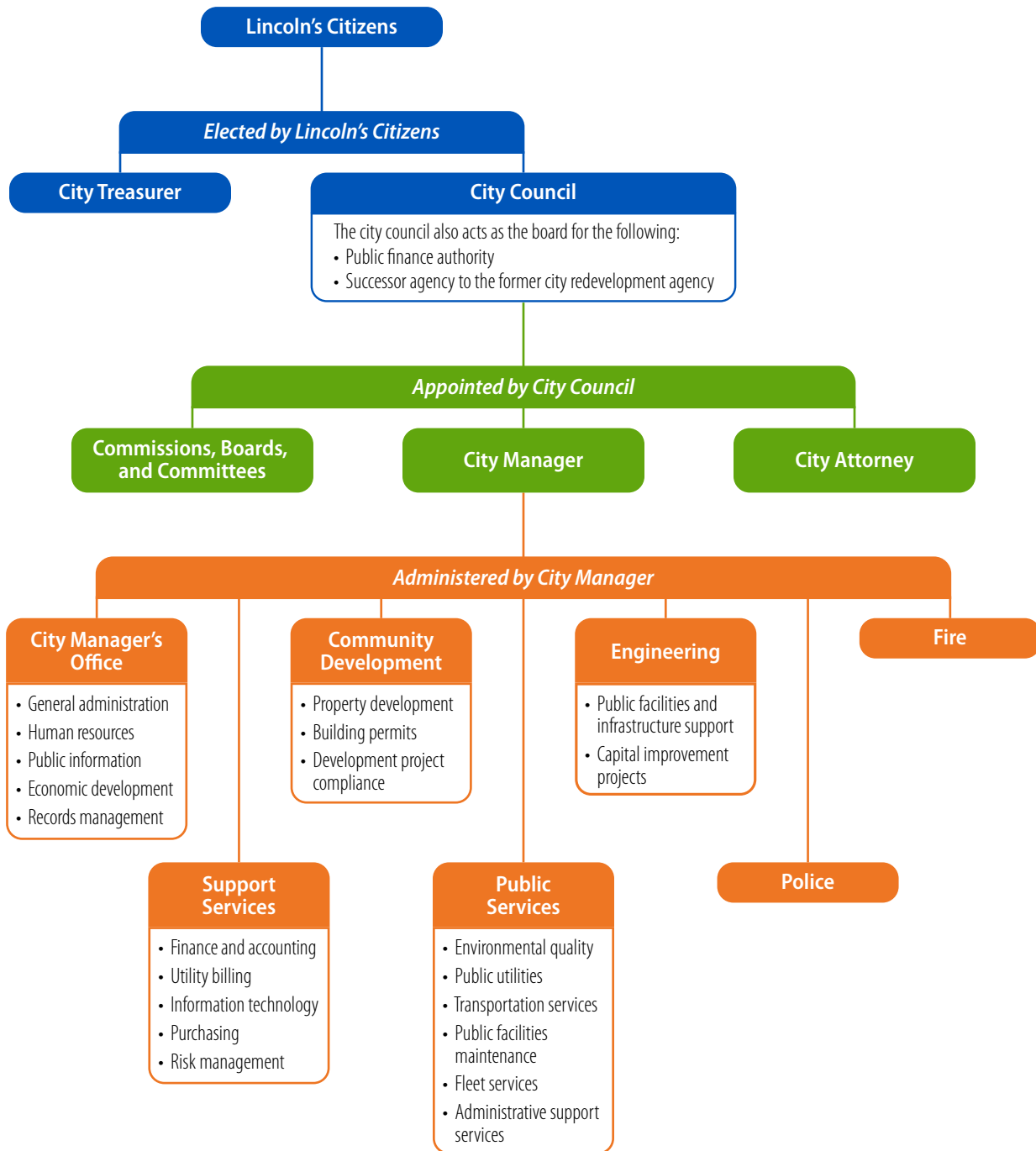
Incorporated in 1890, Lincoln is located 27 miles northeast of Sacramento in Placer County. The city, which occupies about 22 square miles, serves a population of more than 47,000 residents and administered more than 2,400 active business licenses as of December 2018. Lincoln employs about 150 full-time employees to provide a range of services, including public safety, water, sewer, garbage collection and disposal, library, community development, and general administration. It obtains water from a wholesale water supplier, Placer County Water Agency (Placer Water). Lincoln also operates a municipal airport and transit system.

City Governance

Lincoln is a general law city, which means that state law establishes its form of government and that it is subject to state law in its ability to govern municipal affairs. As a general law city, it operates under the council-manager structure: the city council is responsible for the city's governance, while the city manager administers its operations. The city council is composed of five elected officials, each serving a four-year term. Figure 1 on the following page shows Lincoln's elected officials, the positions that the city council appoints, and the departments that the city manager administers. The city uses a mayoral rotation system to select a councilmember to serve as mayor each year. Before the November 2018 election, four of the five councilmembers had served six years or longer. During the election, Lincoln voters elected two new councilmembers, who took office in December 2018.

The city manager reports to the city council and is responsible for the efficient administration of all Lincoln's operations. The city manager appoints and supervises the directors of the city departments, who present staff reports and recommendations to the city council. The city manager's office administers personnel functions, manages public information activities, oversees economic development activities, and coordinates records management. The city manager is also responsible for ensuring the enforcement of all laws and ordinances applicable to city governance. Lincoln's most recent city manager served from February 2015 through July 2018, when he resigned. The city council appointed an interim city manager in July 2018, and the term of his contract expired in January 2019. The city's director of public services, who also currently serves as Lincoln's interim director of support services, is now also serving as interim city manager until the council hires a permanent replacement.

Figure 1
Overview of Lincoln’s Government



Source: Lincoln’s comprehensive annual financial report, website, and ordinance.

One of the primary responsibilities of the director of support services is to oversee Lincoln's financial operations. In this capacity, the director of support services manages the city's financial reporting, utility billing, purchasing, information technology, and risk management. The director of support services also participates in the development of the budget and coordinates the city's interactions with the external auditor responsible for conducting its annual financial audits. The most recent director of support services, who had served in that role at various times since 2006, separated from the city in January 2019, during our audit.

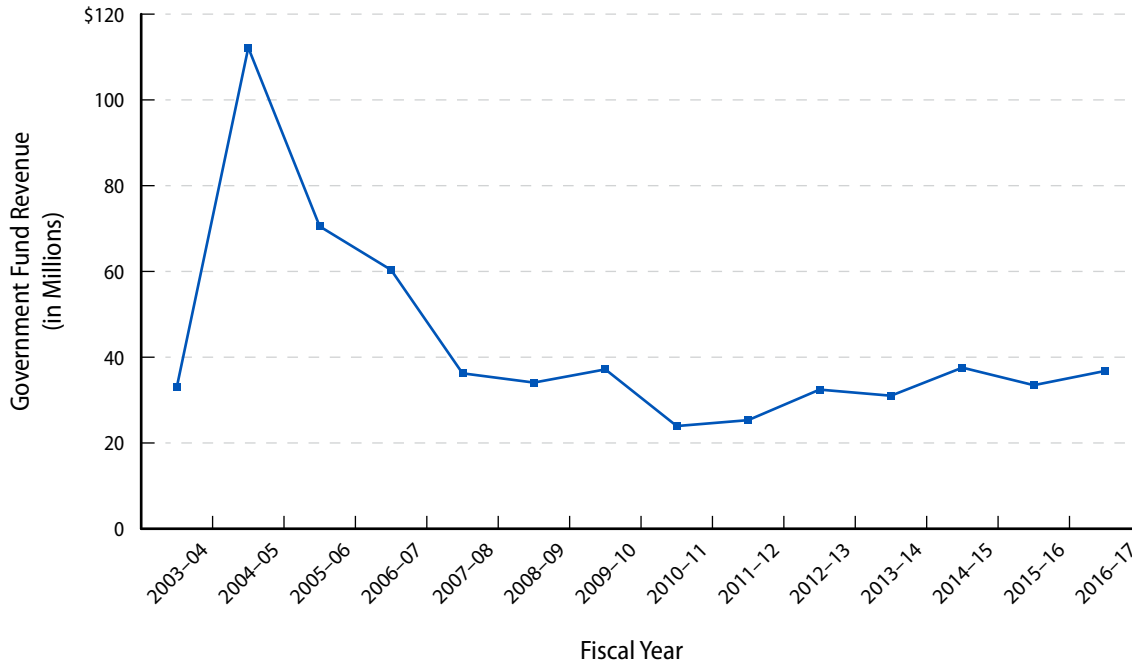
Lincoln, like other cities, uses fund accounting to comply with legal requirements. Among its other characteristics, fund accounting involves tracking financial activity using restricted and unrestricted funds. For example, Lincoln's general fund is classified as an unrestricted fund, meaning that the city can use revenue from this fund to pay for any type of government activity. However, other funds are classified as restricted funds, requiring that Lincoln use their revenue only for the specific purposes designated in state law or municipal code. For instance, state law requires Lincoln to spend revenue in the water connections fund only for expanding its access to water capacity. Additionally, Lincoln's municipal code requires it to spend revenue in its oak tree preservation fund to plant new oak trees or maintain existing trees within the city.

Rapid Growth Followed by a Sharp Decline

From 2000 through 2010, Lincoln experienced tremendous growth, expanding from 11,000 to 43,000 residents. In fact, during that decade, Lincoln was the nation's fastest growing city of more than 10,000 residents. From 2000 through 2005, it processed an average of 1,852 construction permits annually for new single-family dwellings, with a high of 2,845 permits in 2005. However, with the collapse of the national and local real estate markets after 2007, new construction permits for single-family dwellings in Lincoln fell dramatically, to only 90 permits for the entire year of 2010. Although the number of permits rose after 2010, averaging 229 each year from 2013 through 2017, it has yet to come close to the peak in 2005.

The change in Lincoln's governmental fund revenue was similar to the growth and decline in the city's construction. The majority of Lincoln's revenue in its governmental funds, which includes the general fund, comes from taxes and charges for services. As Figure 2 on the following page shows, the city's revenue peaked in fiscal year 2004–05 at \$112 million, followed by a sharp decline to less than \$24 million in fiscal year 2010–11. In recent years, the city has experienced some modest revenue growth, rising from \$31 million in fiscal year 2013–14 to \$37 million in fiscal year 2016–17.

Figure 2
Lincoln's Government Fund Revenue Rapidly Grew in Fiscal Year 2004–05, Followed by a Significant Decline



Source: Lincoln's comprehensive annual financial reports.

As Table 1 shows, Lincoln's general fund revenue has been higher than its expenditures in recent years. From fiscal years 2004–05 through 2016–17, Lincoln's general fund revenue fluctuated from \$10.6 million to \$17.8 million annually, while its general fund expenditures ranged from \$9.8 million to \$16 million during the same period. During that period, the city set aside a certain amount of its general fund balance for specific purposes. For instance, in fiscal year 2016–17, it set aside a \$2 million reserve in case of a catastrophic emergency. Since fiscal year 2004–05, Lincoln's unrestricted general fund balance has varied significantly, plummeting as low as \$0 in fiscal year 2008–09 and rebounding to \$8.7 million in fiscal year 2016–17.

Table 1
Lincoln’s General Fund Revenue Generally Exceeded Its Expenditures
(in Millions)

FISCAL YEAR	REVENUE	EXPENDITURES	UNRESTRICTED FUND BALANCE
2004–05	\$10.6	\$9.8	\$4.2
2005–06	11.4	12.1	3.1
2006–07	13.9	13.3	5.3
2007–08	14.1	15.8	2.7
2008–09	12.9	16.0	0.0
2009–10	15.5	14.1	2.5
2010–11	12.3	13.0	4.1
2011–12	12.1	11.9	3.5
2012–13	13.9	13.2	3.7
2013–14	14.3	12.8	3.8
2014–15	15.7	13.7	5.6
2015–16	16.0	14.8	6.5
2016–17	17.8	15.5	8.7

Source: Lincoln’s comprehensive annual financial reports.

Concerns Over City Finances

In 2016 a local citizens group began raising concerns about possible financial improprieties in Lincoln. In February 2017, the group initially submitted a claim to the city for refunds of overcharges, alleging that the city’s water rates were not proportional to the city’s actual cost of providing water to customers. The group alleged that Lincoln violated the provisions of Proposition 218, a constitutional amendment adopted by the voters in 1996 to limit the ability of local governments to impose taxes, assessments, charges, and fees based on property ownership. After the city denied the claim, the group sued it in April 2017. As a result of a mediated settlement, Lincoln agreed to refund residential ratepayers for overcharges from February 2016 to the date the city adopted new water rates, which it did effective October 2018. The city council later decided to provide refunds to commercial ratepayers and to extend its refunds for both groups back to January 2014, when Lincoln first implemented the contested water rates.

Concurrent with its review of Lincoln’s water funds, the citizens group identified several other concerns. It claimed that Lincoln forgave millions of dollars in fees that developers owed the city,

while allowing them to continue with their projects. The group also claimed that Lincoln misused public funds by engaging in questionable interfund borrowing and overcharging citizens and ratepayers for rates or fees for services. The group further claimed in December 2017 that Lincoln had not paid for its own water use, and it also claimed that the city falsified reports to the California Department of Water Resources to conceal its water use. In January 2018, the city council initiated an independent investigation, which revealed that city councilmembers, former city managers, and certain city staff were in fact aware that Lincoln had not paid for its own water usage. According to the independent investigation, the city and the public were put on notice of this practice as early as 2004. The concerns that the citizens group raised ultimately led to this audit.

Lincoln Made Questionable Loans, Transfers, and Allocations That Did Not Always Comply With State Law

Key Points

- Lincoln risks violating state law by making loans between funds that it may not be able to repay. From fiscal years 2013–14 through 2017–18, the city council approved four interfund loans totaling \$13.6 million, even though none of the loan agreements demonstrate that the borrowing funds had the ability to repay the loans.
- Lincoln misrepresented the financial position of certain funds by temporarily transferring amounts to these funds from a restricted fund to offset significant year-end deficits. From fiscal years 2013–14 through 2016–17, Lincoln used surpluses from the water connections fund to offset negative cash balances in the airport, fire, drainage, parks, and regional sewer funds at the end of each fiscal year.
- Lincoln violated the state constitution by allocating surplus revenue from some landscaping and lighting zones—regional areas where the city charges the property owners for landscaping, lighting, and other services in public areas within those regions—to offset deficits in other zones. Because Lincoln did not discretely account for the revenue and expenditures from each zone, property owners in certain zones subsidized the costs of benefits that owners in other zones received.

Lincoln Risks Violating State Law by Making Loans Between Funds That It May Not Be Able to Repay

Lincoln did not follow its policies pertaining to interfund loans and advances, increasing its risk of violating state law. According to the interim city manager, Lincoln did not have a policy governing interfund loans until 2013. Once in place, the policy required the city council to approve loans and advances between funds that would not be repaid within 90 days of the end of the current fiscal year. The policy also required that the city establish a formal repayment schedule for each loan, demonstrate an ability to repay the loan without negatively affecting either the lending or borrowing fund, and identify the funding source that the borrowing fund would use to repay the loan.

However, we found that the city council approved loans from restricted funds to other funds that clearly did not have the capacity to repay those loans. Table 2 on the following page shows that from fiscal years 2013–14 through 2017–18, Lincoln had eight outstanding interfund loans. The city council approved four of these loans before it adopted its interfund loan and advance policy in 2013, whereas it approved the other four—which totaled \$13.6 million—after the adoption of the policy. None of the loans the city council approved from fiscal years 2013–14 through 2017–18 met the policy’s requirements. For example, instead of containing repayment schedules, these loan agreements simply stated that repayment would begin when funds were available.

Further, none of the agreements or accompanying staff reports for the eight loans demonstrated that the borrowing funds had the ability to repay the loans. Although the loans made before 2013 were not subject to the interfund loan and advance policy, we would have expected Lincoln to have demonstrated the ability to repay the loans to show that they were truly loans, rather than subsidies.

Table 2
The City Council Approved Interfund Loans Without Payment Schedules or Repayment Ability, Leading to Several Loans Not Being Repaid

DATE OF LOAN	AMOUNT LOANED (IN MILLIONS)	LENDING FUND	BORROWING FUND	AMOUNT OUTSTANDING AS OF 6/30/18, INCLUDING INTEREST (IN MILLIONS)
Loans made before 2013 that remain outstanding				
September 1988	\$0.9	Sewer	Redevelopment	\$0.3
August 2008	1.9	Solid Waste	Drainage	1.0*
January 2010	3.9	Water Connections	Redevelopment	4.2
June 2010	0.9	Housing	Redevelopment	0.2
Subtotals	\$7.6			\$5.7
Loans made after the city established the 2013 interfund loan policy				
November 2014	\$3.7	Water Connections	Sewer	\$0.0
June 2016	5.3	Water Connections	Fire	5.3
June 2016	2.3	Library	Fire	0.0†
June 2016	2.3	Oak Tree Preservation	Fire	2.3
Subtotals	\$13.6			\$7.6
Totals	\$21.2			\$13.3

Source: Lincoln's loan agreements and tracking document.

* We identified two additional interfund loans that Lincoln made to its drainage fund to address the outstanding balance of this loan. Although Lincoln retroactively dated the loans as of June 30, 2018, the city council approved these loans in September 2018, after the end of fiscal year 2017-18. We, therefore, excluded them from this table.

† Lincoln repaid this loan using available funding from a developer forgoing a refund of impact fees.

When requesting the city council's approval of these loans, the former director of support services did not provide councilmembers with pertinent information in his staff reports. For example, in June 2016, the city council approved the refinancing of three interfund loans that Lincoln had used to build firehouses in 2006. The refinancing was necessary because the terms of the original loans had ended and the fire fund had not repaid them. The new loans totaled \$9.9 million, with terms of 10 years. In his staff report to the city council, the former director of support services correctly asserted that the interfund loan and advance policy requires that the city council approve in advance loans between funds that the funds will not repay within 90 days after the

end of the current fiscal year. However, he did not identify that the policy requires the city to provide specific documentation for such loans, including a repayment schedule. Although the former director of support services claimed that the previous city manager did not provide him guidance to include more information and detail in his reports, he acknowledged that city ordinances require him to keep the city council fully advised of the financial condition and needs of the city. Moreover, we believe that he and his staff should have been aware of the city's policy regarding interfund loans and followed it.

Notwithstanding the former director of support services failing to provide the city council with complete information regarding these loans, we would have expected the city council to ensure that the loans complied with city policy. Of the five city councilmembers serving during our audit, four were not only members when the city council approved the loans in 2016 but also were members when the city council approved the 2013 policy governing interfund loans and advances. The four councilmembers told us that they expect staff to provide them with adequate information to make policy decisions. Nonetheless, we believe that these councilmembers should have been aware of the interfund loan requirements. However, at the June 2016 city council meeting, the city council approved the three interfund loans that did not meet the city's policy requirements.

In addition to not following its own policy, Lincoln risked violating state law when it made these interfund loans because it used excess revenue from its restricted funds to provide loans to other funds that do not have similar purposes. As we discussed in the Introduction, cities such as Lincoln use restricted funds to set aside revenue designated for specific purposes according to state or local laws. However, Lincoln used several restricted funds—such as the water connections fund, the oak tree preservation fund, the solid waste fund, and the library fund—to make interfund loans to other funds with unrelated purposes. Under state law, restricted funds may make loans to other funds as long as the restricted fund has a surplus, the loan does not interfere with the purpose of the restricted fund, and the borrowing fund repays the loan as soon as possible, with interest. In addition, Lincoln's policy requires that the city establish evidence of the ability to repay the loan.

However, Lincoln could not demonstrate that it could repay any of the four loans it made from fiscal years 2013–14 through 2017–18, as its policy requires, or any of the four outstanding loans from before our audit period, as we would consider a good business practice. For example, the city council approved a \$3.9 million loan in 2010 from the water connections fund to its redevelopment agency, despite the fact that city staff identified that the redevelopment agency did not have the ability to repay the loan. In addition, as Table 2 shows, the fire fund owed about \$5.3 million to the water connections fund and \$2.3 million to the oak tree preservation fund as of June 2018, yet it had not made

any payments to either lending fund since the start of the 10-year loan period in 2016. Moreover, if the fire fund's revenue remains consistent with the amounts recorded from fiscal years 2013–14 through 2016–17, it will earn less than \$1 million in cumulative revenue over the next eight fiscal years—far less than the \$7.6 million outstanding on the loans. Therefore, it is unlikely that the fire fund will be able to repay its obligations by the end of the loan period in 2026. The former director of support services acknowledged that he had concerns when establishing the loans that the fire fund would not have the ability to repay them unless the city identified alternative funding sources. However, he could not explain why he proceeded with the loan and sought the city council's approval.

As we discuss previously, a city may loan surplus amounts from restricted funds to other funds as long as the loan does not interfere with the purpose of the lending fund. Table 3 identifies four such funds that had significant surplus revenue as of June 30, 2017. Although Lincoln currently has plans or is in the process of developing plans to spend the surpluses in three of these funds, it has not demonstrated a similar level of commitment to reducing the surplus of its water connections fund. The water connections fund includes water capacity charges that the city collects from developers and property owners, and the fund has accumulated a surplus because Lincoln overcharged these fees. In certain instances, it may be reasonable for a city to maintain surplus funds, such as when it is saving for major projects. However, Lincoln could not provide documentation that it was planning such projects for the water connections fund. In addition, the city was unable to explain why it did not reduce its water capacity charges to reflect the costs of providing the related service.

Table 3
Lincoln Accumulated Surpluses in Restricted Funds That It Used for Interfund Loans
(in Millions)

LENDING FUND	CASH BALANCE AS OF JUNE 30, 2017 (NET OF LOANS)*
Water Connections	\$24.1
Library	1.9
Solid Waste	1.8
Oak Tree Preservation	1.3
Total	\$29.1

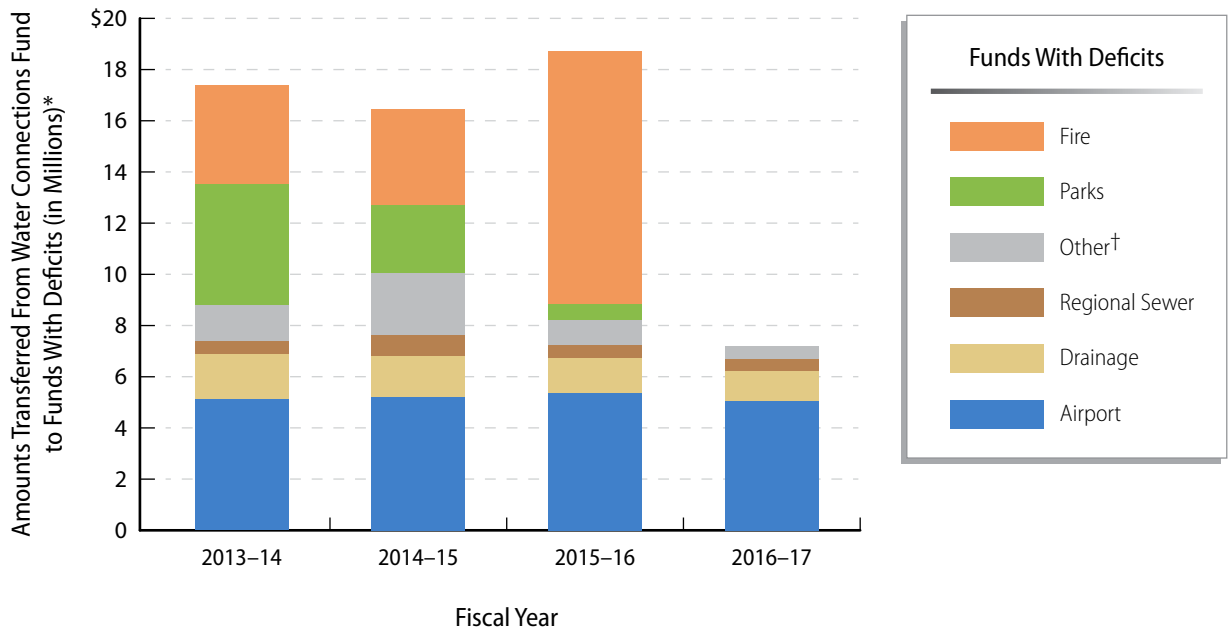
Source: Analysis of Lincoln's interfund loans, financial records, and comprehensive annual financial reports.

* We present the cash balance of each fund as of the end of fiscal year 2016–17 because Lincoln had not issued its audited financial statements for fiscal year 2017–18 at the time we conducted our analysis. The interim city manager anticipated that the financial audit for fiscal year 2017–18 would not be completed until March 2019.

Lincoln Inappropriately Utilized a Restricted Fund to Offset Year-End Deficits in Other Funds

In addition to making questionable interfund loans from its restricted water connections fund, Lincoln temporarily transferred amounts from this fund to offset significant year-end deficits in other funds, and as a result, it misrepresented its financial position in its annual financial statements. From fiscal years 2013–14 through 2016–17, some of Lincoln’s funds—including the airport, fire, drainage, parks, and regional sewer funds—ended most fiscal years with negative cash balances. These balances resulted from the city’s various practices, including operating its airport with an ongoing structural deficit and funding infrastructure projects, public facilities, and parks without having sufficient revenue from its fire, drainage, and parks funds to pay for these activities. As Figure 3 shows, Lincoln used interfund transfers ranging from a total of \$7 million to \$19 million each year to offset the year-end deficits in these funds.

Figure 3
 Lincoln Inappropriately Transferred Reserves Each Fiscal Year From Its Water Connections Fund to Offset Year-End Deficits in Other Funds



Source: Analysis of Lincoln’s accounting records and financial statements.

* Lincoln posted these transfers to its accounting records to take effect on June 30, the last day of the fiscal year, but transferred the same amounts back to the lending fund the next day or shortly thereafter. The city repeated this process in subsequent fiscal years.

† Other funds include a federal grant fund and a capital project fund.

The city made these transfers on a temporary basis using the cash surplus in its water connections fund. Specifically, Lincoln posted journal entries to its accounting records when closing its books at the end of fiscal years 2013–14 through 2016–17. Recording these entries on June 30, the last day of the fiscal year, allowed the city to present the financial condition of the funds in its year-end financial statements as if they were solvent. Each year, the city reversed the journal entries effective July 1, or shortly thereafter, after preparing its financial statements. The former director of support services acknowledged that he was aware that these transactions from the water connections fund were potentially inappropriate at the time he made them, but he did so because the general fund did not have sufficient reserves to eliminate the other funds' year-end deficits. Further, he acknowledged that he authorized these transfers without seeking approval from the city manager or the city council, as the city's 2013 interfund loan and advance policy requires. Although these accounting transactions did not involve any actual transfer of money between financial institutions or bank accounts, they concealed the true financial condition of those funds with negative balances.

As a result of the transfers, Lincoln misrepresented its financial position by using the surplus in its water connections fund to offset year-end deficits in other funds, thereby presenting those funds as if they were solvent. For example, Lincoln's airport fund ended fiscal year 2016–17 with a negative cash balance of approximately \$5 million. The former director of support services authorized a journal entry to report a higher amount of cash in the airport fund, as well as several other funds, by reducing the ending balance of cash in the water connections fund. Consequently, he was able to report a positive cash balance of \$11,000 in the airport fund at the end of fiscal year 2016–17.

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Lincoln misrepresented its financial position by using the surplus in one fund to offset year-end deficits in other funds.

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According to guidance from the Government Finance Officers Association (GFOA), a transfer made without a reasonable expectation of repayment does not represent a loan. Instead, it should be classified as a subsidy. In the previous example, the former director of support services acknowledged that the airport fund was unable to demonstrate the ability to repay the loan. State law restricts the use of the water connections fund to certain activities, so Lincoln cannot use it to subsidize any unrelated city service.

Instead, Lincoln must use unrestricted funds, such as its general fund, to subsidize deficits in other funds. However, we confirmed the former director of support services’ assertion that Lincoln’s interfund loans and transfers exceeded its unassigned general fund balance in the years in question. Table 4 shows that Lincoln recorded significant interfund loans and transfers—ranging between \$26 million and \$37 million—from its restricted funds in its accounting records from fiscal years 2013–14 through 2016–17. In fiscal year 2016–17, Lincoln had an unassigned year-end general fund balance of nearly \$9 million, but this amount was insufficient to cover the city’s \$26 million in interfund loans and transfers. Consequently, Lincoln will need to identify alternative financing or revenue sources, such as bonds or one-time revenue, to address these deficits.

Table 4
Lincoln Made Significant Loans and Transfers From Restricted Funds to Other Funds
(in Millions)

FISCAL YEAR	TOTAL AMOUNT OF OUTSTANDING INTERFUND LOANS	TOTAL AMOUNT OF INTERFUND TRANSFERS FROM THE WATER CONNECTIONS FUND	TOTAL
2013–14	\$16.8	\$17.2	\$34.0
2014–15	20.5	16.5	37.0
2015–16	14.4	18.7	33.1
2016–17	18.7	7.2	25.9

Source: Analysis of Lincoln’s financial statements and its outstanding loans and transfers.

Lincoln’s external auditor also reported similar concerns with the city’s interfund loans and transfers. Specifically, in each of the annual financial audits from fiscal years 2013–14 through 2016–17, the external auditor reported deficiencies in Lincoln’s interfund loan and transfer practices, which we believe resulted in the city’s misrepresenting certain fund balances in its financial reports. In each fiscal year, the external auditor reported that Lincoln misstated its interfund borrowings by classifying interfund transfers as short-term borrowings, even though the city never demonstrated the ability of these respective funds to repay the transfers within the subsequent fiscal year. The city agreed with the finding each year and repeatedly stated that city staff would reclassify these transfers as long-term loans; however, it has not taken any such action.

Similar to what we observed, the external auditor reported that Lincoln used revenue from a restricted fund to offset the year-end deficits in other funds. According to the external auditor, Lincoln’s

use of restricted funds for these transactions represented an “ineligible” use of funds because the city should not use restricted funds to offset its cash deficits. The external auditor recommended that Lincoln use its general fund as the source for future transfers. However, because the general fund has insufficient resources to cover the funds’ ongoing deficits, Lincoln may need to identify additional revenue sources, reduce its general fund expenditures, or take other actions to lessen the need for the transfers. Otherwise, increasing its other anticipated general fund expenditures could jeopardize the solvency of Lincoln’s general fund.

We asked Lincoln’s external auditor about its perspective on the city’s use of interfund transfers. Although it reported the city’s practice as a significant deficiency in its summary of findings in its recent audit report, the external auditor informed us that it did not consider the issue to rise to the level of significance that would lead it to change its audit opinion from an unmodified, or clean opinion. The external auditor indicated that the city fully disclosed the transfers, and that city management agreed to resolve the issue going forward. Nevertheless, we believe that by presenting the funds that received the transfers as having positive fund balances, the city misled the public regarding its financial stability and presented an artificially high general fund balance.

Lincoln Violated the State Constitution by Allocating Surplus Revenue to Offset Deficits in Its Landscaping and Lighting Zones

We also found that Lincoln allocated surplus revenue from some landscaping and lighting zones to offset deficits in other zones. State law authorizes cities to form landscaping and lighting maintenance districts, and within these districts to group similar regional areas into zones to pay for landscaping, lighting, and other services in public areas. These districts levy assessments to property owners to pay for public improvements or services—such as landscaping or lighting for parks and streetscapes—that benefit their properties. Lincoln has 33 zones within its district, each of which represents a group of properties that substantially receive the same degree of benefit from public improvements.

The state constitution imposes certain limitations on the ability of local governments to levy assessments, including that the amount of the assessment cannot be more than necessary to cover the reasonable costs of the landscaping and lighting services and that the allocation of the costs must bear a fair or reasonable relationship to the benefits each property owner receives. However, Lincoln did not discretely account for the revenue and expenditures from each of its zones, which is necessary to ensure that it allocates the appropriate costs to the property owners in each zone. Lincoln

failed to allocate these costs appropriately, resulting in property owners in certain zones subsidizing the costs of benefits received by property owners in other zones. Because it allocated costs to property owners that were not proportionate to services it provided to them, Lincoln violated the state constitution.

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Lincoln allocated costs to property owners that were not proportionate to services it provided to them.

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In April 2018, the director of public services provided a staff report to the city council acknowledging that the city had not historically tracked revenue and expenditures by zone. For fiscal year 2018–19, the city estimated that five of the 33 zones would have a combined deficit of \$474,000 because the costs of maintaining those zones’ landscaping and lighting exceeded the assessment revenue the city collected from the zones’ property owners. For example, in the staff report, Lincoln estimated that for fiscal year 2018–19, it will collect only \$498,000 in assessment revenue for one of its zones, despite expecting to incur costs of \$1,043,000 for landscaping and lighting services in that zone. Lincoln indicates it will contribute an additional \$116,000 to that zone from its general fund in fiscal year 2018–19, which would still leave a deficit of \$429,000. The staff report shows that this zone accounts for most of the five zones’ combined deficit of \$474,000.

To address the five zones with ongoing deficits, the city will need to increase the assessments in those zones through voter approval by property owners. Otherwise, the city will need to reduce services in those zones or subsidize their deficits with the general fund. For most zones in the landscaping and lighting district, the city included an annual escalation factor in the assessment to account for inflation. However, it did not implement such a factor for the one zone previously mentioned when it was established in the 1980s, so the revenue for that zone has remained the same, while the cost of maintenance has increased over time.

In addition to the need for tracking revenue and expenditures discretely for each landscaping and lighting zone, Lincoln did not pay its share of expenditures for each of its zones. State law requires the city to conduct an evaluation and prepare a report each year to apportion the costs associated with the general benefit of city maintenance in each zone. The general benefit is the portion of costs for parks, streetscapes, and lighting that provides value to

nonresidents and the city overall for which the city should pay this share of costs from the general fund. However, contrary to state law, the city had historically not apportioned any costs to the general fund. In particular, Lincoln did not begin calculating and allocating the cost of the general benefit until April 2018. For fiscal year 2018–19, Lincoln estimates the total cost of its landscaping and lighting maintenance to be \$3.3 million, of which the city determined the general fund should pay \$324,000.

Recommendations

To ensure that it complies with state law, Lincoln should immediately review all of its outstanding interfund loans to determine whether the borrowing funds can repay the loans according to the terms. For any loan that is from a restricted fund and that does not have the capacity to be repaid, Lincoln should develop a plan that ensures repayment within a reasonable time frame, including seeking possible alternative financing or revenue sources, such as the general fund, bonds, one-time revenue, or a tax increase, to address the obligation.

To ensure that city staff provides the city council adequate information to make its decisions regarding interfund loans and transfers, the city council should immediately collaborate with the city manager and department directors to establish formal expectations regarding the content of staff reports, and it should hold the city manager accountable for ensuring all staff reports meet those expectations.

To ensure that it avoids accumulating surpluses, Lincoln should establish policies and procedures by August 2019 requiring it to review its fund balances at least annually and, if necessary, reduce its fees within a reasonable time frame.

To comply with state law, Lincoln should immediately discontinue its practice of using restricted funds to subsidize other funds that have year-end deficits and that lack the ability to permanently repay the transfers within 90 days of the close of the fiscal year.

To ensure that it complies with the state constitution, Lincoln should establish and adhere to procedures that account for revenue and expenditures in each landscaping and lighting zone separately, and it should discontinue its use of surplus revenue from one zone to offset a deficit in another zone. It should take these actions by June 2019.

By June 2019, Lincoln should establish accounting procedures to ensure that it records all costs of city maintenance from the appropriate funds, including apportioning the general benefit costs to the general fund.

Lincoln Did Not Accurately Charge the Public for Certain City Services

Key Points

- Lincoln overcharged developers and builders for the cost of water infrastructure and capacity. Because its capacity charges were not commensurate with the amounts it pays for water infrastructure and capacity, the city had accumulated a fund balance of nearly \$41 million as of June 2017.
- Lincoln charged developers for city services using hourly rates that did not represent the current costs of its staff time. Until fiscal year 2018–19, Lincoln used rates that it based on cost information from fiscal year 2005–06. Consequently, the city undercharged the public for many of its services.
- Lincoln violated provisions of the state constitution by failing to pay for its own use of municipal utilities, instead passing these costs on to ratepayers. The city acknowledged that it should have paid more than \$1.6 million for its share of water, sewer, and solid waste services during the four-year period from January 2014 through February 2018.

Lincoln Overcharged Developers and Builders for the Cost of Water Infrastructure and Capacity

Lincoln overcharged its customers, which include developers and builders, for water capacity charges. A water capacity charge is a one-time fee that Lincoln assesses at the time it issues a building permit. The water capacity charge is intended to cover the city's cost of obtaining specified amounts of water for a location, including the infrastructure needed to treat and transmit water to that location. It is not the charge for the actual water, but the charge for reserving water so that it is available when needed. In its contract with Placer Water, its water supplier, Lincoln defines *capacity* as the maximum amount of water per day that the city may require Placer Water to deliver.

State law prohibits the water capacity charge from exceeding the estimated reasonable cost of providing the service. According to guidance from the League of California Cities, a city should prepare a fee study when it identifies the public services and infrastructure that will require funding through its fees. Conducting a fee study provides the quantified basis for the imposition of fees and helps the city account for its current funds and capacity, as well as planned projects going forward. Therefore, at the time Lincoln purchased capacity from Placer Water, it should have conducted a study that contemplated these factors to ensure that the fees it planned to charge aligned with the costs of the capacity it purchased and of any anticipated future expansion of capacity.

In lieu of performing a fee study that considered the costs of Lincoln's current capacity and its future capacity needs, the city council enacted an ordinance to allow the city to charge its customers an amount based on Placer Water's assumption that an average dwelling would use 1,150 gallons of water per day. However, the director of public services informed the city council in September 2018 that an average dwelling in Lincoln uses only 650 gallons per day—slightly more than one half of Placer Water's assumption—leading us to question the reasonableness of the fees Lincoln charged its customers. According to the director of public services, the city staff members who were involved in setting those fees are no longer employed by the city. She speculated that Lincoln likely took this approach because Placer Water's fee incorporated what the city understood to be an industry-standard water usage amount per dwelling.

According to the former director of support services, Lincoln has not purchased additional water capacity since 2008. The director of public services informed us that Lincoln purchased more capacity and infrastructure than it needed at that time because it was able to take advantage of a discounted rate in anticipation of future growth. The city engineer indicated that depending on the rate of new development within the city, Lincoln may not need to purchase additional capacity for the next 10 to 25 years. Further, in a November 2018 staff report to the city council, he indicated that Lincoln currently has almost 5 million gallons in water capacity reserved with Placer Water beyond the amount the city would use on a peak day, which is 35 percent more than its current needs. Lincoln's actions appear to have contributed to the increase in the fund balance of its water connections fund, which the city reported was nearly \$41 million as of June 2017. Although it may be reasonable for Lincoln to maintain additional water capacity and to retain reserve funds for future water acquisitions, infrastructure needs, or unforeseen emergencies, the interim city manager stated that the city did not have documented plans as of January 2019 for any of these purposes. Rather, as we discuss previously, Lincoln has used these reserves to make loans and transfers to other funds.

Further, Lincoln continued to increase its water capacity charges unnecessarily each year. For example, the city charged \$12,909 for fiscal year 2013–14 for a low-density single-family dwelling but increased the charge over time to \$15,862 for fiscal year 2016–17, resulting in Lincoln collecting nearly \$4 million in capacity charges in fiscal year 2016–17. The director of public services informed us that she and the city engineer discovered in 2015 that the city's actual water usage did not align with Placer Water's per-dwelling usage assumption, resulting in the city overcharging for water capacity charges. However, we did not find any evidence that the city took action to align the capacity charges with the actual water usage per dwelling.

Therefore, by not conducting a fee study that contemplated Lincoln’s actual capacity needs, accumulating a \$41 million fund balance without documented plans to expand its water capacity, and unnecessarily increasing its water capacity charges annually, the city overcharged its customers, which is a potential violation of state law. In November 2018, the city engineer recommended to the city council that it approve a fee study to establish appropriate water capacity charges. The city engineer also suggested approving a temporary ordinance adjusting water capacity charges until the study is complete. During that same month, the city council authorized a fee study to establish appropriate water capacity charges, and in January 2019, the city council adopted the temporary ordinance adjusting water capacity charges to align them with the anticipated actual water usage, which in many cases lowered the water capacity charge. Lincoln also issued a request for proposals in January 2019 for an external consultant to conduct a water capacity fee study.

Lincoln Did Not Fully Recover Costs of Its Staff’s Time for City Services It Provided to Developers

In contrast to the overcharges we discuss previously, we identified certain services for which Lincoln undercharged the public. Lincoln’s master fee schedule includes hourly rates for position classifications throughout the city, such as an accountant or a building inspector. These staff rates represent the amounts the city charges the public to cover the hourly cost for city staff to perform development services, such as conducting building inspections and processing permits. However, Lincoln has been using outdated staff rates that do not represent the current costs of staff time for these services.

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Lincoln has been using outdated staff rates that do not represent the current costs of staff time for services.

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Until fiscal year 2018–19, Lincoln used staff rates that it calculated based on cost information from fiscal year 2005–06. The city most recently recalculated its staff rates in fiscal year 2012–13, which reflected increases in personnel costs since fiscal year 2005–06. However, the former director of support services informed us that the city waited until July 2018 to adopt these updated rates. The former director of support services stated that Lincoln did not adopt the updated rates in 2012 because the city attorney at that time advised that the city council would need to approve the updated rates, and

city management did not believe that the city council would do so. The former director of support services indicated that Lincoln did not update its staff rates after 2012 because it did not have the requisite staff or time needed to produce a new hourly rate schedule.

Even after implementing the 2012 rate schedule in fiscal year 2018–19, Lincoln has apparently continued to undercharge the public for costs related to development projects because the staff rates it implemented are most likely outdated as a result of inflation and wage increases after 2012. The city was already aware of certain personnel cost increases during the previous six years from 2006 to 2012, when it developed its rates for 2012. For example, the rate for the director of development services increased by \$47 per hour from 2006 to 2012, while the rate for a senior planner increased by \$24 per hour. In fact, we noted that the rates for certain staff positions increased by more than 30 percent. According to its comprehensive annual financial reports for fiscal years 2014–15 through 2016–17, Lincoln’s overall general fund expenditures increased an average 6 percent each fiscal year primarily because of increased salary and benefit expenditures, which leads us to conclude that staff rates should also have increased. Lincoln incorporates both direct staffing costs, such as salaries and benefits, and indirect costs, such as administrative overhead, into its calculation of the staff rates. Likewise, the city includes these same costs in its annual budget, meaning that the city council essentially endorses the amount of the staff rates through its approval of the annual budget. Therefore, it would seem reasonable for the city to update the staff rates in its master fee schedule at the same time that the city council approves the annual budget.

Lincoln Did Not Pay for Its Own Use of Municipal Utilities

We also found that Lincoln violated provisions of the state constitution by failing to pay for its own municipal utilities—water, sewer, and solid waste services—and instead passing these costs on to ratepayers. The city uses these utilities in its general operations, such as using water for irrigating city parks. As we discuss previously, in 1996 the voters adopted Proposition 218, a constitutional amendment that limits the ability of local governments to impose taxes, assessments, charges, and fees based on property ownership. According to Proposition 218, the amount that the city can charge to ratepayers shall not exceed the cost of the service attributable to the parcel receiving the service. The city uses independent rate studies to determine the amount of fees to charge to ratepayers for their use of utilities. The rate studies identify the city’s anticipated cost to provide those services. However, the city’s 2013 utilities rate study did not include anticipated revenue that Lincoln should have paid from various funds, such as the general fund, to each of the utility funds for the city’s own use of these utilities.

According to a March 2018 staff report, by excluding the city’s share of utility usage, the city’s cost to provide these services to ratepayers was higher than if it had used this revenue to offset the costs factored in its calculation of rates. The staff report estimated that from January 2014 through February 2018, the city should have paid \$1.3 million for its water use, \$252,000 for its solid waste use, and \$55,000 for its sewer use, for an estimated total of more than \$1.6 million. However, the director of public services, who developed the staff report, explained that the amount that the city should have paid for its water use was difficult to estimate—and was likely underestimated—because the city had about 40 unmetered water accounts during that time. Because it did not track the water usage for these accounts, the city was unable to determine the costs pertaining to those accounts in its estimation of the city’s water use.

Although various city councilmembers, former city managers, and department directors were aware of Lincoln’s failure to pay for its municipal utilities, the city did not promptly correct the issue. In response to a group of concerned residents who questioned the city’s practice of not paying for its own water, the city council authorized an independent investigation in January 2018 to determine when city officials first became aware that the city had not paid for its own water use. The external law firm the city assigned to the investigation issued its report in April 2018. It determined that city management and the city council were aware as early as 2004 that Lincoln did not pay for its own water use yet failed to rectify the issue. Specifically, the law firm found that a 2004 water rate study prepared by an external consultant highlighted that the city only partially metered its own water use and recommended that the city meter and pay for all of its water use to comply with Proposition 218.

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City management and the city council were aware as early as 2004 that Lincoln did not pay for its own water use yet failed to rectify the issue.

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Additionally, the investigative report cited interviews in 2018 with a former city attorney, a former councilmember, and the city’s mayor at that time, each of whom recalled a closed session during a council meeting in 2011 in which the city council discussed Lincoln’s practice of not directly billing itself for water. The mayor recalled management indicating that the city did not have the funds available to pay for its water use. According to the investigative report, many factors appear to have contributed to the city not

addressing these issues sooner, such as its unprecedented growth in the early 2000s, its financial problems resulting from the 2008 recession, and staff and management turnover, particularly within the support services department.

Furthermore, the city has not refunded ratepayers for increases in rates it charged them as the result of its own, unpaid use of utilities. According to the city attorney, claims for refunds related to the city's utility use have a statute of limitations of one year, meaning that ratepayers seeking refunds of fees or charges cannot recover any amounts the city collected more than one year before the ratepayers presented their claims to the city. Although Lincoln is not legally required to issue refunds, it could consider doing so as a matter of public benefit, which it has acknowledged. Specifically, a March 2018 staff report informed the city council that it could choose to refund the costs paid by ratepayers beyond the one-year statute of limitations by passing a resolution declaring the public purpose of the refund and the commensurate benefit to the city, such as improved public trust in local government. However, the city council had not chosen to issue refunds as of February 2019.

Recommendations

Lincoln should immediately commence a fee study that ensures its fees for water capacity are commensurate with the costs of current and planned future water capacity needs. To the extent that Lincoln has previously overcharged for water capacity fees, it should develop a plan to provide equitable consideration to those who overpaid such fees, and it should eliminate any unnecessary surplus in the water connections fund.

To ensure that its fees are commensurate with the cost of providing services, Lincoln should develop and follow a timeline by June 2019 for conducting periodic fee studies for each of its services, including updating its staff rates annually.

To the extent allowable by law, the city council should develop a plan by August 2019 to provide equitable consideration to ratepayers for the utility costs they incurred that were higher than necessary because of the city's practice of not paying for its own water, sewer, and solid waste services.

To ensure transparency to the public, beginning with its fiscal year 2019–20 budget, Lincoln should specify in its annual budget the amount that it intends to spend for the use of municipal utilities—water, sewer, and solid waste—and the funds that it intends to use to pay for these costs.

Lincoln Did Not Establish or Consistently Follow Key Policies and Procedures to Ensure the Appropriate Management of Public Funds

Key Points

- Lincoln did not establish sufficient financial policies and procedures to ensure that it manages public funds appropriately. Specifically, Lincoln’s lack of budgeting policies and procedures resulted in insufficient transparency with the public and a failure to provide adequate information to the city council so that it could make informed decisions.
- Lincoln did not consistently follow its policies and procedures for approving expenditures, resulting in the authorization of some questionable expenditures.
- Lincoln did not address audit deficiencies that its annual financial audits repeatedly noted. For example, it did not address the city’s lack of adequate year-end closing procedures, which resulted in material misstatements in its draft financial statements and delayed completion of the city’s comprehensive annual financial reports (CAFRs).

Lincoln Did Not Establish Sufficient Financial Policies and Procedures

Lincoln does not have sufficient policies and procedures to ensure consistency, compliance, and transparency in its financial practices. The GFOA recommends that governments implement specific financial, accounting, reporting, and budgeting policies and procedures, including those intended to facilitate the review, discussion, modification, and adoption of a proposed budget. The text box summarizes some of the key policies the GFOA recommends. In many instances, Lincoln has not established such policies and procedures, and in instances where it has established policies and procedures, it did not always follow them.

Lincoln could have addressed many of the issues we discuss throughout this report if it had sufficiently adopted and followed comprehensive financial

Key Budgeting Policies and Procedures That the GFOA Recommends

Fees and Charges: Adopt policies that identify the manner in which fees and charges are set. These policies may address the frequency with which cost-of-services studies will be undertaken.

Balancing the Budget: Develop a policy that defines a balanced budget and provides for disclosure when a deviation occurs.

Revenue Diversification: Adopt a policy that encourages a diversity of revenue sources. A diversity of revenue sources can improve a government’s ability to handle fluctuations in revenue.

One-Time Revenue: Adopt a policy limiting the use of one-time revenue for ongoing expenditures. A government should explicitly define one-time revenue and allowable uses for that revenue.

Debt Management: Adopt policies to help ensure that the government issues and manages debt prudently to maintain a sound fiscal position.

Budget Review: Develop a set of procedures that facilitate the review, discussion, modification, and adoption of a proposed budget.

Adjusting the Budget: Have procedures in place to determine when deviations from the budget plan merit adjustments to the budget.

Communication: Institute a process that includes an examination of strengths and weaknesses of the organizational structure and of the communication of goals and directives.

Source: GFOA’s Recommended Budget Practices: A Framework for Improved State and Local Government Budgeting, (1998).

policies and procedures. For example, Lincoln does not have a policy pertaining to its establishment of fees and charges. Despite having maintained a significant reserve in its water connections fund for at least 10 years, Lincoln did not reduce the water capacity charges to its customers, as we discuss previously. Developing and following a policy pertaining to its fees would help Lincoln ensure that its fees align with the cost of services. Further, as we discuss in the Introduction, the recession had a significant negative financial impact on Lincoln. We find it surprising that Lincoln has not subsequently developed a revenue diversification policy to protect itself financially in the event of another severe market downturn.

Lincoln's lack of budget review procedures resulted in it taking actions that were not sufficiently transparent to the public and in staff failing to provide the city council with enough information to make informed decisions. The GFOA acknowledges that because most budgets inevitably reflect a compromise of goals and priorities, creating clear and accepted processes for facilitating the review, discussion, modification, and adoption of a proposed budget will help promote acceptance and timely approval. However, Lincoln has not established any such written procedures. The investigative report we previously discuss concluded that during the development of the fiscal year 2016–17 budget, the director of public services proposed including Lincoln's municipal water use as a distinct expenditure in the budget. However, the report states that the former director of support services was not comfortable including this item in the budget. Consequently, the city council does not appear to have discussed the director of public services' proposal, and the city continued to violate Proposition 218.

Lincoln's lack of budget review procedures resulted in it taking actions that were not sufficiently transparent to the public.

The city council's lack of formal expectations for its budget process resulted in practices that were not sufficiently transparent. Although the city council's investigative report indicated that some councilmembers were aware that Lincoln had not paid for its municipal water use, a majority of city councilmembers informed us that they learned in December 2017—months after the city council passed the budget—about Lincoln's failure to pay for its own use of municipal water. As we previously note, city councilmembers indicated that they expect staff to provide them with adequate information to make policy decisions. For instance,

one councilmember informed us that he relies on staff to highlight any significant changes they make to the budget. However, the duty statements for the city manager and the director of support services do not specify requirements for communicating with the city council about significant changes to the budget. Further, Lincoln does not have formalized procedures to guide its communication among city staff of goals and directives. Having such procedures would help the city council formally communicate its expectations to management, thereby mitigating instances of staff not sharing information from the city council and the public.

Although the former director of support services acknowledged that Lincoln did not have many written policies and procedures for budgeting, Lincoln included a summary in its approved fiscal year 2018–19 budget titled *Key Budget Policies* that the city informed us represents Lincoln’s formal policies and procedures. This summary cites some policies that Lincoln has formalized through city council resolutions, such as a debt management policy that describes the city’s policy objectives, parameters, and guidelines for issuing debt. However, the summary also references other areas for which Lincoln cannot demonstrate that it had established formal policies. For example, the summary addresses fees at a very high level, simply stating that the city will review its fees to assure that they reflect actual costs and that the city council will adopt a fee schedule. In contrast, the GFOA recommends that policies on fees and charges include specific detail on the frequency with which a city will undertake fee studies, which the city’s summary does not address. Based on the concerns that we previously describe about the city’s fees not always aligning with its costs of providing services, we believe that the city’s key budget policies do not provide the appropriate level of detail to guide city staff in their budgeting efforts.

Lincoln Did Not Follow Certain Existing Policies and Procedures

We also determined that Lincoln did not consistently follow some of its existing policies and procedures. Although Lincoln enacted an ordinance that established specific dollar thresholds and approval requirements for spending city funds, staff sometimes made expenditures without obtaining appropriate approvals. In 2014 the city council established an ordinance requiring the city manager’s approval for expenditures exceeding \$10,000 and the city council’s approval for expenditures exceeding \$25,000. The ordinance also requires city council approval for contract amendments exceeding 10 percent of the original contract value. However, the city did not obtain appropriate approval for three of the 20 expenditures we reviewed from fiscal years 2013–14 through 2017–18.

In fact, for one of these three circumstances in which the city made unapproved expenditures, the city could not even demonstrate the validity of a claim. To settle this claim, Lincoln made payments that totaled \$98,000 in August and October 2017 to reimburse a homeowners association (association) for utility costs, but Lincoln could not demonstrate that the city council approved the payments. In March 2016, the association submitted a claim for more than \$40,000 for reimbursement of electricity costs it paid to operate a water booster pump station from December 2014 through December 2015, even though it alleged it had been paying the costs since 2005. In its claim, the association indicated that the utility provider billed the association for the electricity and it mistakenly paid the bill on the city's behalf for several years. According to the director of public services, the original development agreement for the subdivision stated that Lincoln would pay for the electricity for the pump station and charge property owners within the association for these costs. However, Lincoln could not provide evidence of a formal agreement describing this arrangement, and the director of public services indicated that Lincoln never imposed such a charge on property owners. Regardless, in April 2016, Lincoln rejected the claim because the association did not submit it in the time allowed by law.

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Lincoln settled a claim that totaled \$98,000 but could not demonstrate that the city council approved the settlement.

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However, in a July 2017 closed session meeting regarding the water rates lawsuit, the city council discussed this previously rejected claim. The city's documentation from that meeting is insufficient to determine who raised the issue, how it was connected to the water rates lawsuit, or why the city revisited a claim it had previously denied. According to the current city attorney, who was not working for the city at the time and was not present at the meeting, the city council authorized the city manager to settle the association's claim during that meeting. Further, the interim city manager indicated that Lincoln resolved the claim to avoid litigation. However, the city's actions to resolve the claim violated state open meeting law. State law directs local agencies, such as city councils, to post an agenda in advance of a closed session meeting containing a brief general description of each item of business to be transacted or discussed in the meeting. Lincoln failed to make such a disclosure before the closed session meeting in which the

city council discussed this claim. Therefore, the city council violated state open meeting law by discussing the claim without having disclosed that topic on an agenda.

The city council violated state open meeting law by discussing a claim without having disclosed that topic on an agenda.

Further, Lincoln could not provide documentation that the city council directed the city manager to initiate settlement of the association's claim or that it entered into a settlement agreement with the association, which we would expect the city to have done to appropriately settle the claim. Given the importance of being transparent and accountable to the public in its use of public funds, we find it particularly concerning that Lincoln did not obtain a signed settlement agreement to protect it from potential future litigation. In addition, after the closed session meeting, two department directors—rather than the city manager—initiated the reimbursement to the association, even though department directors are not authorized to settle claims on behalf of the city. The city attorney asserted that the city council authorized payments totaling \$98,000 to the association at the August and November 2017 city council meetings when it approved its warrant lists—periodic lists of all checks Lincoln issued. However, because the city council approves warrant lists after it has already made the payments, we question how that action would constitute official authorization to settle a claim. In this instance, city staff issued the payments to the association several days before the city council approved the warrant lists.

In another instance, Lincoln allowed an engineering firm to conduct work for the city beyond the scope of its contract without obtaining prior approval from the city council, as required by city ordinance. Specifically, Lincoln entered into a contract with an engineering firm to provide temporary staffing in the community development department starting in September 2017. The contract's terms stipulated that payments for services would not exceed \$30,000. In November 2017, the director of community development needed the contractor to perform more work than the contract originally allowed. He spoke with the former director of support services, who indicated that the community development

department could use excess unspent salaries to fund the additional work. Therefore, the director of community development instructed the firm to continue working.

We reviewed written communication from the former city manager to the city council that indicated that in January 2018, the former director of support services incorrectly led staff to believe that city council approval was not required to use the unspent salaries to compensate the contractor. The former city manager indicated that after identifying the lack of city council approval, he instructed the director of community development to formally request a contract amendment for the additional costs incurred. The director of community development requested such an amendment at the next city council meeting, in February 2018. By that time, however, the engineering firm had already performed additional work and invoiced the city for a total of \$111,000, or \$81,000 more than the original contract. If the city council had denied the amendment, Lincoln might have been subject to litigation, as the city had already obligated itself to pay for the additional work.

We also found another instance when the city amended a contract without appropriate approval. In this case, a former city engineer authorized a change order that increased the amount of a contract for improving sidewalk ramps from \$20,400 to \$23,390, when he only had approval authority for contracts totaling \$12,500 or less. By amending the contract without acquiring the requisite approval, this individual violated Lincoln's purchasing ordinance. The current city engineer did not address the specific actions of his predecessor but informed us that he occasionally approves similar change orders, with the city manager's verbal approval, when it is not feasible to wait two weeks or more to obtain the city council's authorization. This approach appears to circumvent Lincoln's procedural control, which it likely adopted so that it could avoid excessive or inappropriate spending.

We also noted that when exercising their purchasing authority, Lincoln's former city managers, before July 2018, did not consistently follow ordinances concerning purchasing that the city adopted in 2014. Although the city manager has the authority to enter into contracts up to \$25,000 without prior approval of the city council, the purchasing ordinances requires the city manager to promptly report in writing all uses of this purchasing authority at a city council meeting. However, Lincoln could not demonstrate that its former city managers ever made such reports. Although the city claims that the warrant lists that the city council reviewed satisfied this requirement, we do not believe that the lists contained sufficient detail for the city council to identify instances when the city managers exercised their purchasing authority. Specifically, the list of checks did not identify who approved each expenditure.

Therefore, it is unclear whether the city council had any knowledge of purchases the former city managers authorized and whether it exerted sufficient oversight of those expenditures.

It is unclear whether the city council had any knowledge of purchases the former city managers authorized.

Lincoln Did Not Address Audit Deficiencies That Its Annual Financial Audits Repeatedly Identified

In addition to the unresolved audit deficiencies related to interfund loans and transfers that we discuss previously, the external auditor repeatedly reported that Lincoln did not have sufficient year-end closing procedures for preparing its financial statements, which the auditor found resulted in material misstatements in the city's draft financial statements. Despite the auditor recommending that Lincoln establish year-end closing procedures each fiscal year from 2013–14 through 2016–17, Lincoln did not address the recommendations. The material misstatements required the external auditor to reconcile the financial reports and conduct additional testing, which delayed completion of the city's CAFR in three of the five years from fiscal years 2013–14 through 2017–18. State law requires cities to issue their audited CAFRs within seven months after the close of each fiscal year. Because Lincoln's fiscal year ends on June 30, it must issue its audited CAFR by January 31 of the following year. However, Lincoln issued its CAFR 19 days late for fiscal year 2013–14 and 82 days late for fiscal year 2016–17. Additionally, as of the beginning of March 2019, the city had not issued its CAFR for fiscal year 2017–18, making it at least one month late.

The former director of support services informed us that Lincoln did not correct the deficiencies in its year-end closing procedures because of insufficient staff and high turnover in the finance division. However, the interim city manager acknowledged that the city has not conducted a staffing analysis to quantify its need for additional staffing. Although it was the former director of support services' responsibility to address the audit recommendations from the city's external auditor, he did not develop a formal process or schedule for doing so. The interim city manager stated that she plans to address the audit deficiencies going forward.

Although the city manager is responsible for city operations, the council did not hold the city manager accountable for addressing the audit deficiencies. The councilmembers offered different explanations for not doing so. According to one city councilmember, the external auditor provides the city's finance committee—which includes two city councilmembers—with the detailed audit findings, but only provides the full city council with a more high-level overview that does not describe all findings. Another councilmember stated that the city manager is responsible for ensuring that all findings in the annual financial audit are resolved, and it is not the city council's responsibility to manage these issues. Nevertheless, the city council has an oversight responsibility, and it did not hold the city manager accountable to ensure staff resolved the audit findings.

Recommendations

By August 2019, Lincoln should establish and follow policies and procedures for budgeting, preparing its financial statements at the end of each fiscal year, and approving expenditures based on the GFOA guidelines and other best practices.

To help ensure that the city manager fully informs the city council of all relevant information before the council approves the annual budget, the city should specify by July 2019 the supporting information that it expects staff to provide with the proposed budget. Lincoln should then update its duty statements to require the city manager and department directors to provide the city council with this information as part of the city's budget process.

To ensure that the city complies with its purchasing policy, the city manager should immediately develop and implement procedures for staff to obtain and document the required approval from the city manager or the city council before committing city resources. Beginning immediately, the city manager should also report to the city council on a regular basis all purchases that the city manager approves.

To ensure that city management holds city staff accountable for resolving deficiencies identified in its annual audits, Lincoln's city council should immediately require the city manager to track and report progress in addressing outstanding audit recommendations at least quarterly.

By June 2019, Lincoln should develop and follow a process to ensure that it accurately and promptly records all year-end closing entries in its general ledger and issues its CAFR within the period that state law requires.

OTHER AREAS WE REVIEWED

To address the audit objectives approved by the Joint Legislative Audit Committee (Audit Committee), we also reviewed the subject areas detailed in Table 5. The table indicates the results of our work in these areas and any associated recommendations that do not appear in the other sections of this report.

Table 5
Other Areas Reviewed as Part of This Audit

Master Fee Schedule
<p>The city has not updated its master fee schedule since 2012 to reflect the fees that it currently charges, thereby conveying inaccurate information to the public regarding the costs of city services. Lincoln’s municipal code directs the city council to establish and publicly issue a schedule of fees and charges for the provision of city services. Some of the fees that Lincoln has increased since 2012 include traffic mitigation fees, water capacity charges, drainage fees, water connection fees, and community service fees. The former director of support services acknowledged that the information on the schedule is outdated but informed us that the city has not had sufficient staff resources to update that information. Nevertheless, the city’s presentation of an outdated master fee schedule could lead to confusion for members of the public who attempt to understand the costs of city services.</p> <p>In addition, Lincoln has not conducted a comprehensive review of its fees since 2012. The municipal code requires the city council to review the fee schedule at the beginning of each fiscal year for possible revisions and amendments. In addition, the GFOA suggests that cities should review and update fees periodically based on factors such as inflation, the costs of other services, the adequacy of cost recovery, the use of services, and the competitiveness of current rates. In January 2019, Lincoln issued a request for proposals seeking a consultant to prepare a full cost allocation plan and perform a comprehensive review and evaluation of the city’s master fee schedule. Lincoln anticipates that the contractor will conduct an initial review and update of the fee schedule by the end of fiscal year 2018–19, and the city plans to have this contractor review the fee schedule annually through at least fiscal year 2021–22.</p> <p>Recommendation</p> <p><i>To ensure transparency in providing accurate fee information to the public, Lincoln should immediately update and publicly disclose its master fee schedule to reflect the fees that it actually charges. In addition, Lincoln should periodically review its fee schedule to identify outdated fees that do not accurately reflect the cost of providing services. It should revise those fees to incorporate the costs commensurate with those services and update its master fee schedule accordingly.</i></p>

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Developer Fee Credits

Lincoln could not always justify the amounts of fee credits it provided to developers. Lincoln charges developers and builders fees to recover certain costs that the city incurs to sustain new development, such as the costs of building and maintaining new city infrastructure and providing community services. When entering into a development agreement with Lincoln, a developer may choose to mitigate some of these costs by building new city infrastructure within its development project area. In return, the city awards credits to offset the fees (fee credits) that the developer pays. The city bases the fee credits on certain factors at the time it formalizes the development agreement, such as expected construction costs and the fees set forth in the city's master fee schedule. However, these factors can change between the time of the city's initial approval of the fee credit and the time that the developer obtains building permits to perform the work.

Under those circumstances, we would expect the city to maintain support detailing any revisions to the fee credits. Although Lincoln was able to support its rationale for initially awarding fee credits to developers, it could not always substantiate the fee credits it gave the developers when they commenced work. For example, when we reviewed a development agreement from 1998 and a corresponding agreement from 2003 to transfer the fee credits involved, we found that the agreements established fee credits of \$5,936. However, when the developer obtained a building permit in 2014, the city gave it a fee credit of \$9,813. City staff could not provide evidence to substantiate the increased fee credit. The interim city manager indicated that she and the city engineer are actively researching how Lincoln has established fee credits under development agreements to ensure that the city has applied appropriate fees. By not effectively tracking its establishment of fee credits over time, the city risks charging incorrect fees to developers and not collecting sufficient funding to cover the operating and maintenance costs that it will incur as a result of new development.

Recommendation

To ensure that it applies the correct fee credits to developers, Lincoln should develop policies and procedures by September 2019 for establishing fee credits and maintaining adequate documentation to justify modifications to fee credits, including credits it awards based on changes in fee schedules and updated development agreements.

Investment Portfolio Fees

Lincoln was unaware until recently of the fee amounts it paid for management services of its investment portfolio because the quarterly investment reports its investment advisor provided lacked this information. Although the reports presented a summary of the current value of the city's investments, including any earnings recognized during the period, the investment broker reduced the earnings by its fees, rather than presenting those fees separately. Lincoln's agreement with its broker did not stipulate the terms of the fees or how they were to be disclosed. Without this information, Lincoln could not ensure that the fees that it paid were accurate or reasonable.

In response to our inquiries, Lincoln requested that its broker identify the specific fees the city paid. The broker responded in December 2018 with a high-level summary of the fees for fiscal year 2017–18, which totaled almost \$300,000. Subsequent to our inquiries, Lincoln sought proposals from other investment management firms and awarded a contract in January 2019 to a different firm to serve as the city's investment advisor. The new contract specifies the fees Lincoln will pay based on a percentage of the portfolio's total value. The interim city manager estimated that the city will pay annual fees of around \$100,000. The contract also stipulates that the investment advisor will send the city monthly statements that indicate the basis for fees it charges to the city.

Councilmember's Financial Interests

We identified one city councilmember who did not fully disclose his financial interests. State law requires city councilmembers to disclose certain financial interests annually using a form referred to as a statement of economic interest. On his statements of economic interest for calendar years 2013 through 2016, this councilmember reported up to \$100,000 that he received each year through personal loans from his family trust. We found that Lincoln engaged in a development agreement with this trust in the past, before the councilmember's tenure on the city council. In response to our inquiry, the councilmember advised us that as of November 2018, he had not repaid the loans from the trust. However, we found that he failed to disclose these outstanding loans on his 2017 statement of economic interest.

We also identified a second concern related to this councilmember. Specifically, he may have also violated state conflict-of-interest laws by participating in and influencing governmental decisions that may have affected his financial interests. State law prohibits public officials at any level of state or local government from making, participating in, or attempting to use their official positions to influence governmental decisions when they know, or have reason to know, that those decisions will have material effects on their financial interests.

In 2018 the city council considered whether to establish community facilities districts to provide financial support for basic infrastructure and public safety services, including whether to impose a tax on residents that could affect the value of properties within the boundaries of the districts. Based on our interviews with the councilmember and our review of city council meeting minutes, we determined that the councilmember was appointed to a working group that met three times starting in early 2018 to discuss the formation of these districts. The councilmember told us that as part of the working group, he participated in discussions with city staff and representatives of the building industry regarding the terms and fees necessary to recover the city's costs of providing services in the districts. City council meeting minutes also show that the councilmember participated in a city council vote on March 27, 2018, to provide the working group with policy direction.

On August 28, 2018, the city council took up resolutions to approve a transfer of properties and the formation of a community facilities district, including a special tax to finance the district, which were based on the recommendations of the working group. The city council meeting minutes show that the councilmember recused himself from the vote on these items because he indicated they could have an effect on properties that his family owned. The interim city manager and city attorney subsequently informed us that the councilmember based his recusal on his desire to exercise an abundance of caution in addressing public perception. However, because the councilmember did not provide us with sufficient information about his ownership interest, we were unable to conclude whether there were any actual conflicts of interest.

State law broadly defines "making" and "participating in" a governmental decision to include providing information, an opinion, or a recommendation for the purpose of affecting that decision. According to the California Fair Political Practices Commission (commission), the agency charged with enforcing state conflict-of-interest laws, a city councilmember who is prohibited from voting on a final resolution as a councilmember also may not participate in discussions or make recommendations as a member of a subcommittee or working group in order to influence the city council's decision. Because the record shows that the councilmember recused himself from the city council's vote, we question whether the councilmember may have violated state conflict-of-interest laws through his participation in the working group. Accordingly, we referred this matter to the commission for consideration.

We conducted this audit under the authority vested in the California State Auditor by Government Code 8543 et seq. and according to generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives specified in the Scope and Methodology section of the report. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Respectfully submitted,



JOHN BILLINGTON
Chief Deputy State Auditor

Date: March 21, 2019

APPENDIX

SCOPE AND METHODOLOGY

The Audit Committee directed the California State Auditor to examine Lincoln’s governance and operational structure, administration of public funds, and assets. Specifically, the Audit Committee requested that we review Lincoln’s policies and procedures, administration of utilities, interfund loans, and accounting for development activities. The table below lists the objectives that the Audit Committee approved and the methods we used to address them.

Audit Objectives and the Methods Used to Address Them

AUDIT OBJECTIVE	METHOD
<p>1 Review and evaluate the laws, rules, and regulations significant to the audit objectives.</p>	<p>Reviewed relevant state laws, rules, and regulations, as well as Lincoln’s city ordinances.</p>
<p>2 Examine Lincoln’s governance and operational structure and assess its management controls and practices, including the extent to which management meets any applicable fiduciary duties to Lincoln’s residents. To the extent possible, identify alternative organizational structures that could result in more efficient and effective management of public funds and assets.</p>	<ul style="list-style-type: none"> • Interviewed city staff and councilmembers and reviewed policies, procedures, organizational charts, committee membership, division of responsibilities, and reporting requirements for city management and the city council. • Identified the fiduciary duties for select management personnel, including the city councilmembers, the city manager, the director of support services, and the city attorney. • Researched alternative organizational structures and best practices to identify efficient and effective management methods. However, we did not identify any deficiencies in Lincoln’s organizational structure that would warrant specific changes.
<p>3 Evaluate the adequacy of Lincoln’s financial processes during the most recent five fiscal years by performing the following:</p> <ol style="list-style-type: none"> a. Review Lincoln’s audited financial statements and internal controls to determine whether there were any deficiencies and whether Lincoln took recommended corrective actions in a timely manner. b. Assess Lincoln’s practices and processes for determining how it uses public funds and assets, and its policies and procedures related to budgeting and expenditures. c. Assess Lincoln’s policies and practices regarding money transfers. d. Assess Lincoln’s policies and practices for depositing and collateralizing public funds. 	<ul style="list-style-type: none"> • Reviewed Lincoln’s CAFRs and single audit reports from fiscal years 2013–14 through 2016–17 and assessed its efforts to address deficiencies through corrective action. The city had not issued its CAFR for fiscal year 2017–18 as of early March 2019. • Compared Lincoln’s budgeting policies and procedures for its use of public funds and assets to guidance from the GFOA. • Tested a selection of Lincoln’s expenditures to determine if the city followed its policies for approving purchases, contracts, and settlements of claims. • Assessed Lincoln’s adherence to its policies regarding interfund loans and transfers by reviewing a judgmental selection of 20 interfund loans and transfers from fiscal years 2013–14 through 2017–18. • Compared Lincoln’s policies and practices for depositing and collateralizing public funds to state requirements and found that Lincoln’s deposits are appropriately collateralized. • Reviewed Lincoln’s contracts with its investment broker and advisor, examined its quarterly investment reports, and interviewed relevant city staff and the treasurer to determine whether Lincoln complied with its policies and paid appropriate investment fees.

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AUDIT OBJECTIVE	METHOD
<p>4 Determine whether Lincoln, to the extent it is required by law or regulations, reported its overall financial situation, income, spending, assets, and reserves during the most recent five fiscal years. Further, determine whether Lincoln, to the extent it is required by law or regulations, reported its water and sewage usage, customers, connections, rates, acquisitions, and related data during the most recent five fiscal years.</p>	<p>Identified state reporting requirements pertaining to financial reporting, drinking water, water quality, and water loss. Although the city was late in completing its CAFRs for three of the five years from fiscal years 2013–14 through 2017–18, we found that the city generally complied with its other reporting requirements.</p>
<p>5 Assess Lincoln's process for collecting and reporting residential and commercial fees.</p>	<ul style="list-style-type: none"> • Interviewed staff to determine Lincoln's practices for charging, collecting, and reporting residential and commercial fees. • Reviewed all developer account balances to determine how many accounts were in arrears and the total funds outstanding from fiscal years 2013–14 through 2017–18. We determined that during this period, Lincoln reduced the number of developer accounts with negative balances. Further, the combined amounts of negative balances through fiscal year 2017–18 totaled less than \$15,000, which we concluded was not significant. • Reviewed a selection of five developer deposit accounts and 10 building permits from fiscal years 2013–14 through 2017–18 and compared the fees the city charged developers and builders to the amounts disclosed in its fee schedule to ensure the city charged the correct fees.
<p>6 Determine whether the fees that Lincoln has been assessing ratepayers for water use have been in excess of the actual costs of providing the service during the most recent five fiscal years.</p>	<ul style="list-style-type: none"> • Interviewed staff and reviewed relevant documentation, including the 2013 and 2018 water rate studies, to determine how Lincoln established its 2018 water rates and evaluated whether the rates were commensurate with the cost to provide water. • In May 2018, Lincoln completed a new water rate study, which included consideration for its own use of water. The study recommended and Lincoln ultimately adopted a uniform rate for all customers based on volume, which appears reasonable.
<p>7 Determine whether Lincoln clearly communicates criteria for approving or denying applications for rate changes and whether this process is reasonably transparent.</p>	<ul style="list-style-type: none"> • Reviewed the rate change disclosure requirements in the state constitution and assessed whether Lincoln adhered to the required process in 2013 for disclosing and increasing water rates. We concluded that Lincoln generally complied with the disclosure requirements of Proposition 218 when changing its water rates in 2013. • Determined that the rate change in 2018 occurred in October, which was after our audit period.
<p>8 Determine whether Lincoln complies with relevant laws, regulations, policies, and guidelines regarding the use and distribution of redevelopment funds and, to the extent possible, assess the fairness and reasonableness of the criteria and methods Lincoln follows in its use and distribution of such funds.</p>	<ul style="list-style-type: none"> • Compared Lincoln's redevelopment plans to the requirements set forth in state law and regulations, and determined that Lincoln's redevelopment implementation plans contain the provisions necessary to comply with state law. • Reviewed three outstanding redevelopment projects to determine whether Lincoln complied with its redevelopment plan and relevant laws and regulations when using redevelopment funds and found that these projects complied with state law. • Did not further assess the fairness and reasonableness of Lincoln's criteria and methods to use and distribute redevelopment funds because the State dissolved redevelopment agencies throughout California in 2011, which was before our audit period, and because our testing concluded that historically Lincoln's redevelopment plans and projects complied with state law.
<p>9 Review and assess any other issues that are significant to the audit.</p>	<ul style="list-style-type: none"> • Obtained and reviewed documentation of whether Lincoln paid for its use of its own utilities from fiscal years 2013–14 through 2017–18, and whether Lincoln paid for these services from appropriate funds. • Assessed the city's reliance on interfund loans to remain solvent.

Source: Analysis of the Audit Committee's audit request number 2018-110 and information and documentation identified in the table column titled *Method*.

Assessment of Data Reliability

In performing this audit, we relied on electronic data files that we obtained from Lincoln's accounting and document management databases. The U.S. Government Accountability Office, whose standards we are statutorily obligated to follow, requires us to assess the sufficiency and appropriateness of computer-processed information we use to support our findings, conclusions, and recommendations. Because the city's accounting system is paperless, we were unable to perform completeness or accuracy testing. Furthermore, we did not perform a review of the controls over these data because of the significant resources required to conduct such an analysis.

To gain assurance that the financial records were complete and accurate, we identified major funds that were pertinent to our audit procedures for fiscal years 2013–14 through 2016–17—the first four years of our five-year audit period—and reconciled account totals from the general ledgers for those funds to the amounts reported in Lincoln's audited CAFRs. We were unable to perform a similar comparison for fiscal year 2017–18 because, as of early March 2019, the city had not yet issued the CAFR for that year. Additionally, because Lincoln's accounting system does not specifically distinguish transactions pertaining to interfund loans in a manner that would allow us to extract that data, we relied on spreadsheets prepared by city staff to track interfund and interagency loans during our audit period. To obtain assurance that the spreadsheets were complete, we reviewed interfund loan records in the city's document management system and did not identify any loan agreements that were not included in the spreadsheets. Although we found the financial data to be of undetermined reliability for the purposes of our audit and we recognize that these limitations may affect the precision of the numbers we present, there is sufficient evidence in total to support our audit findings, conclusions, and recommendations.

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March 1, 2019

John Billington
Chief Deputy State Auditor
621 Capitol Mall, Suite 1200
Sacramento, CA 95814

RE: Response to Draft Report of the California State Auditor

Dear Mr. Billington:

Thank you for the opportunity to comment on the draft report prepared by the California State Auditor, as requested by the Joint Legislative Audit Committee. In December 2018, the City began a comprehensive business process improvement initiative that is focused on all finance-related activities. This initiative includes the evaluation of all policies and procedures to identify areas where the City can improve accuracy, effectiveness, transparency and efficiency, and then redesign those processes or policies to realize the improvements.

This effort is long overdue and is needed to demonstrate the City's commitment to being good stewards of the public's money and to increase trust and transparency for our residents. The audit is beneficial to this effort and will serve as part of the framework for establishing a road map for moving forward. As a city, we can do better through the creation of strategic plans to correct course and improve the overall fiscal health and function of the City. Both staff and the City Council are committed to championing this effort.

Response to Audit Recommendations

The City responds to the recommendations as follows:

Section 1

Recommendation 1A: "To ensure that it complies with state law, Lincoln should immediately review all of its outstanding interfund loans to determine whether the borrowing funds can repay the loans according to the terms. For any loan that is from a restricted fund and that does not have the capacity to be repaid, Lincoln should develop a plan that ensures repayment within a reasonable timeframe, including seeking possible alternative financing or revenue sources, such as the general fund, bonds, one-time revenues, or a tax increase, to address the obligation."

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Administrative Services - City Manager's Office - Development Services
Fire - Library - Recreation - Police - Public Services

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Response: The City agrees with this recommendation. The analysis of all interfund loans is currently underway and a comprehensive plan for addressing all interfund loans will be presented to City Council for input and consideration. Paying off all associated debt will require a long-term implementation strategy.

Recommendation 1B: “To ensure that it avoids accumulating surpluses, by August 2019, Lincoln should establish policies and procedures requiring it to review its fund balances at least annually and, if necessary, reduce its fees within a reasonable timeframe.”

Response: The City agrees with this recommendation and will include this requirement in a comprehensive budget policy that will be presented to City Council for consideration.

Recommendation 1C: “To comply with state law, Lincoln should immediately discontinue its practice of using restricted funds to subsidize other funds that have year-end deficits and lack the ability to permanently repay the transfers within 90 days of the close of the fiscal year.”

Response: The City agrees with this recommendation. Beginning with the 2018/2019 fiscal year, the City will discontinue this practice except for short-term loans required for the fiscal year end Generally Accepted Accounting Principle (GAAP) presentation of the City’s financial statements. These types of loans are legal, repaid within 90 days, primarily made for cash flow reasons, and are typically funded by the General Fund.

Recommendation 1D: “By June 2019, Lincoln should establish accounting procedures to ensure that it records all costs of city maintenance from the appropriate funds, including apportioning the general benefit costs to the general fund.”

Response: The City agrees with this recommendation and implemented this recommendation for fiscal year 2018/2019, beginning with the City Council’s adoption of the Lighting and Landscaping District Engineer’s Report on June 12, 2018. The City acknowledges full compliance will be demonstrated when its books are closed at the end of the fiscal year.

Recommendation 1E: “To ensure that it complies with the state constitution, Lincoln should establish and adhere to procedures that account for revenue and expenditures in each landscaping and lighting zone separately, and it should discontinue the use of surplus revenue from one zone to offset a deficit in another zone. It should take these actions by June 2019.”

Response: The City agrees with this recommendation and implemented this recommendation for fiscal year 2018/2019. Importantly, however, the costs associated with the general benefit and any zone deficit that cannot be paid by the Lighting and Landscaping District are obligations of the General Fund. Payment of this obligation by the General Fund results in decreased revenue for public safety. In order to address this issue, consideration of an assessment increase for those deficit zones, as well as those areas of the City that do not currently pay an assessment for the use of parks,

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landscaping, and lighting, will be necessary. The City acknowledges full compliance will be demonstrated when its books are closed at the end of the fiscal year.

Recommendation 1F: “To ensure that city staff provides the city council adequate information to make its decisions regarding interfund loans and transfers, the city council should immediately collaborate with the city manager and department directors to establish formal expectations regarding the content of staff reports, and it should hold the city manager accountable for ensuring all staff reports meet those expectations.”

Response: The City agrees to establish formal expectations among staff regarding the content of staff reports. Information provided to City Council should be reviewed and revised as appropriate to ensure the highest expectation for content.

Section 2

Recommendation 2A: “Lincoln should immediately commence a fee study that ensures its fees for water capacity are commensurate with the costs of current and planned future water capacity needs. To the extent that Lincoln has previously overcharged for water capacity fees, it should develop a plan to provide equitable consideration to those who overpaid such fees and it should eliminate any unnecessary surplus in the water connections fund.”

Response: The City agrees with this recommendation and has initiated the process by issuing a request for proposals to complete the required study. Proposals were received by the City on February 22, 2019, and it is anticipated that a contract will be proposed to City Council on March 12, 2019. The fee study will be used to inform any nexus for the future use of water connection revenue on hand. If a nexus is not identified, the City Council will then evaluate equitable considerations and the public benefit to determine the appropriate action to address any unnecessary surplus.

Recommendation 2B: “To ensure that its fees are commensurate with the cost of providing services, Lincoln should develop and follow a timeline by June 2019 for conducting periodic fee studies for each of its services, including updating its staff rates annually.”

Response: The City agrees with this recommendation. Below is the current status of the various fee studies that are completed or underway:

***Water Rates:** Complete. New rates were implemented October 1, 2018.*

***Solid Waste and Wastewater Rates:** Studies are underway. Draft rates are expected to be presented to City Council by August 2019.*

***Public Facility Element (PFE) Study:** Draft study completed. Final study anticipated to be presented to City Council by June 30, 2019.*

***Master Fee Schedule:** Contract awarded for preparation of the study on February 26, 2019. Anticipate completion by June 30, 2019.*

***Cost Allocation Plan:** Contract awarded for preparation of the study on February 26, 2019. Anticipate completion by June 30, 2019.*

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Water Connection Nexus Study: Proposals received. Contract will be proposed to City Council on March 12, 2019.

Moving forward, the City will create a schedule ensuring regular updates to its fees and rates.

Recommendation 2C: “To the extent allowable by law, the city council should develop a plan by August 2019 to provide equitable consideration to ratepayers for the utility costs they incurred that were higher than necessary because of the city’s practice of not paying for its own water, sewer, and solid waste services.”

Response: The City agrees with the recommendation that further discussion should take place related to this item. The City Council originally addressed this item at its March 13, 2018 meeting. At the end of that meeting, City Council concluded that any decision regarding the item should be postponed until the completion of the audit. Therefore, this item will now be brought back before the Council for consideration.

Recommendation 2D: “To ensure transparency to the public, beginning with its fiscal year 2019-20 budget, Lincoln should specify in its annual budget the amount that it intends to spend for the use of municipal utilities—water, sewer, and solid waste—and the funds that it intends to use to pay for these costs.”

Response: The City agrees to implement this recommendation.

Section 3

Recommendation 3A: “By August 2019, Lincoln should establish and follow policies and procedures for budgeting, preparing its financial statements at the end of each fiscal year, and approving expenditures based on the GFOA guidelines and other best practices.”

Response: The City agrees with this recommendation and has already initiated its implementation as part of the comprehensive business process improvement initiative. On February 12, 2019, the City Council adopted a Closing Policy and a Grants Management Policy. Staff is currently developing a comprehensive budget policy as part of budget planning for the 2019/20 fiscal year. The City will ensure that all policies and procedures required by the Governmental Accounting Standards Board (GASB) and its Generally Accepted Accounting Principles (GAAP) are adopted and implemented.

Recommendation 3B: “To help ensure that the city manager fully informs the city council of all relevant information before the council approves the annual budget, the city should specify by July 2019 the supporting information that it expects staff to provide with the proposed budget. Lincoln should then update its duty statements to require the city manager and department directors to provide the city council with this information as part of the city’s budget process.”

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Response: The City agrees with this recommendation and is currently developing a comprehensive budget policy that will be presented to City Council for consideration.

Recommendation 3C: “To ensure that the city complies with its purchasing policy, the city manager should immediately develop and implement procedures for staff to obtain and document the required approval from the city manager or the city council before committing city resources. Beginning immediately, the city manager should also report to the city council on a regular basis all purchases that the city manager approves.”

Response: The City agrees with this recommendation and is in the process of reviewing the policies and procedures that already exist to determine what modification is required to fully implement this recommendation.

Recommendation 3D: “To ensure that the city management holds city staff accountable for resolving deficiencies identified in its annual audits, Lincoln city council should immediately require the city manager to track and report progress in addressing outstanding audit recommendations at least quarterly.”

Response: The City agrees with this recommendation and will be regularly presenting this information to the Financial Investment and Oversight Committee and the City Council.

Recommendation 3E: “By June 2019, Lincoln should develop and follow a process to ensure that it accurately and promptly records all year-end closing entries in its general ledger and issues its CAFR within the period that state law requires.”

Response: Complete. The City Council adopted a new Closing Policy on February 12, 2019, which addresses this requirement. The City acknowledges full compliance will be demonstrated when its books are closed at the end of the fiscal year.

Section 4

Recommendation 4A: “To ensure transparency in providing accurate fee information to the public, Lincoln should immediately update and publicly disclose its master fee schedule to reflect the fees that it actually charges. In addition, Lincoln should periodically review its fee schedule to identify outdated fees that do not accurately reflect the cost of providing services. It should revise those fees to incorporate the costs commensurate with those services and update its master fee schedule accordingly.”

Response: The City agrees with this recommendation and began implementation on February 26, 2019, when the City Council approved a contract for services with a consultant tasked with completing a comprehensive update to the Master Fee Schedule and the Cost Allocation Plan, both with required annual updates.

John Billington
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Section 5

Recommendation 5A: “To ensure that it applies the correct fee credits to developers, Lincoln should develop policies and procedures by September 2019 for establishing fee credits and maintaining adequate documentation to justify modifications to fee credits, including credits it awards based on changes in fee schedules and updated development agreements.”

Response: The City agrees with this recommendation and is addressing it primarily through the adoption of a new Public Facility Element (“PFE”) study. A draft study is completed, and the final study is anticipated to be presented to City Council by June 30, 2019. Additional procedures will be adopted for the accounting of these credits to ensure they are accurately tracked and managed.

Conclusion

The audit provided the City of Lincoln a valuable opportunity to look internally and improve its operational processes. City staff and the City Council look forward to engaging residents to address the heart of the City’s challenges, a shortfall in General Fund revenue, and the levels of service provided.

Should you have any questions or require any additional information, please do not hesitate to contact me.

Sincerely,



Jennifer Hanson
City Manager