

AGENDA

**INVESTMENT AND FINANCE COMMITTEE MEETING
LEUCADIA WASTEWATER DISTRICT**

February 4, 2015 – 2:30 p.m.
1960 La Costa Avenue, Carlsbad, CA 92009

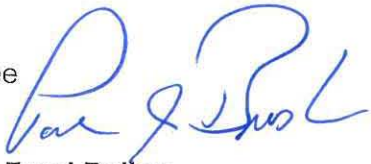
1. **Call to Order**
2. **Roll Call**
3. **Public Comment**
4. **New Business**
 - A. Recommend that the Board of Directors Receive and file the Annual Reserve Policy Review Report.(Pages 2-7)
 - B. GASB Update (Page 8)
 - C. Recommend that the Board of Directors authorize the General Manager to execute a one-year contract amendment with White Nelson Diehl Evans LLP for Financial Auditing Services for Fiscal Year 2015 (FY15) in an amount not to exceed \$22,000. (Pages 9-11)
5. **Information Items**

None.
6. **Director's Comments**
7. **General Manager's Comments**
8. **Adjournment**

MEMORANDUM

Ref: 15-4352

DATE: January 29, 2015
TO: Investment and Finance Committee
FROM: Paul J. Bushee, General Manager
SUBJECT: Annual Review of LWD Reserve Fund Policy



RECOMMENDATION:

Staff requests that the Investment and Finance Committee (IFC) recommend that the Board of Directors:

1. Receive and file the Annual Reserve Policy Review Report.
2. Discuss and take other action, as appropriate.

DISCUSSION:

In February 2005, the Board of Directors (Board) adopted Leucadia Wastewater District's (LWD) Reserve Fund Policy which established a means for the District to ensure that sufficient funds are available for current operating and capital needs. The policy was last revised in February 2014.

The Reserve Fund Policy establishes two distinct reserves at LWD: 1) Restricted Reserves and 2) Unrestricted Reserves. The policy also establishes various designations within each type of reserve and calls for an annual review of the reserve balances. This report constitutes that review.

During December 2014, the Board received the Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2014 that included the following reserve balances:

Restricted Reserves:

<u>Reserve Designation</u>	<u>Reserve Balance</u>
Capital Improvement Reserve	\$1,211,802
Total	\$1,211,802

Unrestricted Reserves:

<u>Reserve Designation</u>	<u>Reserve Balance</u>
Operations Reserve	\$ 2,073,044
Replacement Reserve	23,116,629
Water Recycling Reserve	3,675,534
Emergency Reserve	7,500,000
Total	\$36,365,207

Staff will provide an overview of the reserve activity during the committee meeting. Staff is *not* recommending any changes to the existing Reserve Fund Policy. A copy of the Policy is attached for the committee's review.

cal:PJB

Attachment

**LEUCADIA WASTEWATER DISTRICT
RESERVE FUND POLICY**

Ref: 14-3948

A. POLICY STATEMENT:

One key element of prudent financial planning is to ensure that sufficient funding is available for current operating, capital and debt service cost needs. An additional critical element of fiscal responsibility is to anticipate and prepare for future funding requirements as well as for unforeseen disasters and other unforeseen events. The Leucadia Wastewater District (LWD) will at all times strive to have sufficient funding available to meet its operating, capital, and debt service cost obligations. Reserve funds will be accumulated and maintained in a manner, which allows LWD to fund costs consistent with LWD's Long Range Capital Plan and Long Range Financial Plan while avoiding significant rate fluctuations due to changes in cash flow requirements. LWD will also maintain an emergency reserve position that may be utilized to fund unexpected disasters or unanticipated major failures. The Board of Directors will annually review the level of reserve funds maintained.

B. DEFINITIONS:

Restricted Reserves: Restrictions on their use are imposed by an outside source such as creditors, grantors, contributors, or laws or regulations of other governments.

Unrestricted Reserves: Have no externally imposed use restriction. The use of Unrestricted Reserve funds is at the discretion of the Board of Directors. There are two categories of Unrestricted Reserves -Designated and Undesignated. At LWD, all Unrestricted Reserves are Designated Reserves.

Designated Reserves: Set-aside for a specific purpose, which is, determined by the Board of Directors. The Board of Directors also has the authority to redirect the use of these reserve funds as needs of LWD change.

C. LEUCADIA WASTEWATER DISTRICT RESERVES:

LWD maintains the following reserve funds:

1.0 RESTRICTED RESERVES:

a) Capital Improvement Reserve:

The purpose of the Capital Improvement Reserve is to finance future capital facilities that are expansion /growth related. These capital improvements are identified in LWD's Asset Management Plan and Comprehensive Financial Plan Update. These reserve funds are accumulated in an orderly manner in conformance with State law and drawn down as required by growth related capital projects.

2.0 UNRESTRICTED DESIGNATED RESERVES:

a) Operating Reserve:

Since the majority of operating revenues are received periodically over the fiscal year and operating expenses are incurred uniformly over the fiscal year, an operating reserve is necessary to fund those costs attributable to daily operations. To meet daily operational needs LWD has established an Operating Reserve balance at 33% of annual operating expenses.

b) Replacement Reserve:

The Replacement Reserve provides funds for capital replacement and refurbishment of existing facilities. These capital improvements are identified in LWD's Asset Management Plan and Comprehensive Financial Plan Update. Replacement reserve funds are accumulated in an orderly manner and drawn down as required to fund capital replacement projects. To avoid abrupt sewer service rate changes, this reserve may be used to stabilize rates. The Replacement Reserve shall not exceed the 20-year capital replacement costs as identified in the Comprehensive Financial Plan Update.

LWD's capacity fee represents a system buy-in that takes into account the value of existing capacity pre-built by current users that will benefit future users, and is a source of funding for the Replacement Reserve.

d) Water Recycling Reserve:

The Water Recycling Reserve will fund capital improvements and replacement of water recycling facilities. This reserve will also be used to fund operating expenses in the Water Recycling Fund whenever there is a shortfall of recycled wastewater sales revenue to operating expenses. These capital improvements are identified in LWD'S Asset Management Plan and Comprehensive Financial Plan Update. The Replacement Reserve shall not exceed the 20-year capital replacement costs as identified in the Comprehensive Financial Plan Update.

e) Emergency Reserve:

The Emergency Reserve provides funds for emergency response for potential repair or replacement of capital facilities due to damage from a natural disaster or unanticipated major failure in a period when capital improvements funds have otherwise been purposely spent down to preset limits on planned projects. The Emergency Reserve is at the discretion of the Board of Directors and is maintained at a level of \$7,500,000, which is based on the recommendation by LWD staff and the District Engineer (Exhibit A).

D. SOURCES AND USE OF FUNDS:

RESERVE	SOURCE OF FUNDS	USE OF FUNDS	NOTES
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RESTRICTED RESERVES

Capital Improvement	Interest earned on reserve	Growth related capital expenditures	Funds previously accumulated from capacity fees. Now, capacity fees reflect 100% buy-in to the system and are transferred to the Replacement Reserve
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UNRESTRICTED DESIGNATED RESERVES

Operating	Operating income and interest earned on reserve	Wastewater Operating expenses	Reserve balance maintained at 33% of budgeted operating expenses. Excess (deficit) funds transferred to/from Replacement Reserve
Replacement	Property taxes and other non-operating income, 100% of Capacity Fees, Excess operating revenues, and Interest earned on reserve	Replacement related capital expenditures and rate stabilization	Limited to 20-year capital replacement costs as identified in the Comprehensive Financial Plan Update
Water Recycling	Recycled Water sales and interest earned on reserve	Recycled Water capital improvement and replacement as well as operating expenses	Limited to 20-year capital replacement costs as identified in the Comprehensive Financial Plan Update.
Emergency	Originally funded by board action. Interest earned on reserve	Emergency repair or replacement expenditures	Reserve balance maintained at \$7,500,000 level. Excess funds transferred to Replacement Reserve

EXHIBIT A

Leucadia Wastewater District Discussion of Emergency Reserve Fund

Maintenance of an Emergency Reserve Fund (ERF) would provide the benefit of providing funds for emergency response for repair or replacement of capital facilities potentially necessary due to natural disaster damage or unanticipated major failure in a period when capital improvement funds have otherwise been purposely spent down to preset limits on planned projects. Separately, Capital Reserve Funds will be accumulated in a planned manner through financing, setting aside a portion of sewer service fees, or a combination of both methods, as determined by Board policy.

The amount to be recommended for maintenance in the ERF has been evaluated and discussed by Leucadia Wastewater District (LWD) staff and the District Engineer. The following table lists some pros and cons for three potential levels of ERF.

ERF Alternatives	Pros	Cons
Alternative 1: LWD maintain small ERF of \$1.0 million	<ol style="list-style-type: none"> 1) Reduces initial reliance on borrowing. 2) Would extend period of reduced rate increases. 	<ol style="list-style-type: none"> 1) Not enough reserve to respond to many reasonably possible emergency events. 2) Increased risk at point of ERF exhaustion that emergencies could not be responded to timely. 3) Reduced District liquidity and lesser financing qualifications. 4) Increased long term reliance on borrowing.
Alternative 2: LWD maintain a Moderate ERF of \$7.5 million	<ol style="list-style-type: none"> 1) Sufficient funds to adequately replace or repair two major District facilities on an emergency basis. 2) Sufficient funds to replace or repair about six or seven concurrent intermediate size facility problems at any given time. 3) Unlikely to deplete ERF in a time period that would not allow establishment of additional financing, if necessary. 4) Provides opportunity for investment of modest amount of about 1.5 years worth 	<ol style="list-style-type: none"> 1) Ties up \$7.5 million of funds that could be used to offset or defer rate increases. 2) May be considered as ability to pay discretionary fines in the potential event of a major wastewater spill. 3) Over time, it may be determined that the \$7.5 million amount should be decreased or increased depending on facility performance and risk tolerance.

	<p>of sewer service fee collections.</p> <p>5) Provides ability to fund one to two years of typical CIP schedule projects, while additional funding is being established.</p> <p>6) Increases liquidity of District that would be considered positively by financial markets when considering other financing issues.</p>	
<p>Alternative 3: LWD maintain a Large ERF of \$15 million</p>	<p>1) Very little risk that any emergency situation would result that funds were not available for immediate response.</p>	<p>1) Maintenance of large reserves is considered by some watch dog entities as a negative attribute.</p>

Based on an analysis of the above three ERF funding alternatives above, LWD staff and the District Engineer recommend that LWD adopt Alternative 2 – LWD Maintain a Moderate ERF of \$7.5 million.

MEMORANDUM

Ref: 15-4355

DATE: January 29, 2015
TO: Investment and Finance Committee
FROM: Paul J. Bushee, General Manager
SUBJECT: GASB UPDATE



RECOMMENDATION:

1. This agenda item is provided for information only.

DISCUSSION:

During November 2013, staff briefed the Board of Directors on recently approved Governmental Accounting Standards Board (GASB) reporting standards that will significantly change how state and local governmental agencies, such as LWD, account and report certain transactions and liabilities such as pension obligations.

One of the new reporting standards, GASB Statement No. 68 - Pension Reporting for Employers, will take effect this year. There is also a new proposed GASB standard on leases.

Mr. Richard Duffey, LWD's accountant, will provide a brief update on how these new standards will impact LWD financial reporting.

cal:PB

MEMORANDUM

Ref: 15-4353

DATE: January 29, 2015
TO: Investment & Finance Committee
FROM: Paul J. Bushee, General Manager 
SUBJECT: Contract Amendment No. 2 to White Nelson Diehl Evans LLP for Financial Auditing Services

RECOMMENDATION:

Staff requests that the Investment & Finance Committee (IFC) recommend that the Board of Directors:

1. Authorize the General Manager to execute a one-year contract amendment with White Nelson Diehl Evans LLP for Financial Auditing Services for Fiscal Year 2015 (FY15) in an amount not to exceed \$22,000.

DISCUSSION:

During February 2010, the Board of Directors authorized an initial three-year contract with White Nelson Diehl Evans LLP for financial auditing services. A two-year extension (contract amendment No.1) was subsequently approved by the Board in January 2013 for Fiscal Years ending 2013 and 2014. During their service, White Nelson Diehl Evans has worked closely with the District to conduct thorough financial audits.

It has been customary for the District to replace District auditors after five years of service. However, since the District in its first year with our new accounting software and because we will also be implementing GASB 68 "Pension Reporting for Employers" at year end, staff believes it is in the District's best interest to maintain continuity with our current auditing firm.

Therefore, staff requests that the IFC recommend that the Board of Directors authorize the General Manager to execute a one-year contract amendment with White Nelson Diehl Evans LLP. The proposed Amendment No.2, which authorizes a one-year extension is attached for the Board's review. If approved, fees totaling \$22,000 will be included in the FY 2016 budget.

PJB:

Attachment

**AMENDMENT NO. 2
TO THE PROFESSIONAL SERVICES AGREEMENT
BETWEEN THE LEUCADIA WASTEWATER DISTRICT
AND WHITE NELSON DIEHL EVANS LLP
FOR FINANCIAL AUDITING SERVICES**

Ref: 15-4357

This Amendment No. 2 to the AGREEMENT is made and entered into this 11th day of February, 2015 between the LEUCADIA WASTEWATER DISTRICT, hereinafter referred to as DISTRICT, and WHITE NELSON DIEHL EVANS LLP, CPA's an Accountancy Corporation, hereinafter referred to as CONSULTANT.

WHEREAS, the DISTRICT and CONSULTANT entered into an AGREEMENT on February 10, 2010 for financial auditing services; and

WHEREAS, that AGREEMENT was extended for an additional two-years on January 9, 2013; and

WHEREAS, the DISTRICT has determined that a one-year extension is in the best interest of the District.

NOW THEREFORE, in consideration of their mutual promises, obligations, and covenants hereinafter contained, DISTRICT and CONSULTANT agree to amend the AGREEMENT as follows:

ARTICLE 2: SERVICES TO BE PERFORMED BY CONSULTANT

The Scope of Work shall be amended to include financial auditing services for an additional one-year period for the fiscal year ending June 30, 2015 as described in Exhibit A.

ARTICLE 4: COMPENSATION

Compensation for all work performed under Amendment No. 1 shall be calculated on a time and materials basis. Compensation for the services described in this AMENDMENT shall not exceed \$22,000. This amount shall be added to the previous amount to bring the total not to exceed amount for the AGREEMENT to \$120,250. This amount shall not be exceeded unless there is a change in scope of work, in writing and agreed to by both parties.

All other terms and conditions of the Agreement shall remain unchanged.

IN WITNESS WHEREOF, the parties hereto caused this AGREEMENT to be executed the day and year first above written.

LEUCADIA WASTEWATER DISTRICT

WHITE NELSON DIEHL EVANS LLP

By: _____
Paul J. Bushee
General Manager

By: _____
Harvey J. Schroeder
Engagement Partner

EXHIBIT A

SCOPE OF WORK

The Scope of Work of the Agreement has been expanded to include the following:

- a. Perform annual audit and issue opinions on the District's financial statements in accordance with Generally Accepted Auditing Standards as set forth by the American Institute of Certified Public Accountants, and in accordance with "Minimum Audit Requirements and Reporting Guidelines for California Special Districts" as required by the State Controller's office, for a one-year period for the fiscal year ending June 30, 2015.

The work shall be done on an hourly rate basis with a new ceiling of \$120,250.