

AGENDA


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

February 6, 2024 – 1:30 p.m.
1960 La Costa Avenue, Carlsbad, CA 92009

1. **Call to Order**
2. **Roll Call**
3. **Public Comment**
4. **Annual Review of the LWD Reserve Fund Policy (Pages 2-9)**
5. **Financial Plan Update (Page 10)**
6. **Proposition 218 Process and Schedule a Public Hearing to Consider Adoption of an Ordinance Increasing the Sewer Service Charges for Fiscal Years 2025, 2026, and 2027 (Pages 11-13)**
7. **Information Items**
None.
8. **Directors' Comments**
9. **General Manager's Comments**
10. **Adjournment**

MEMORANDUM

Ref: 24-8652

DATE: February 1, 2024
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. Adopt Resolution No. 2410 approving the revised Reserve Fund Policy; and
2. Discuss and take other action, as appropriate.

DISCUSSION:

Tactical Goal: Financial/Finance Policy Reviews

In February 2005, the Board of Directors (Board) adopted Leucadia Wastewater District's (LWD) Reserve Fund Policy which established a means for LWD to ensure that sufficient funds are available for current operating and capital needs. The policy was last reviewed and revised in February 2023.

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

Staff has reviewed the Reserve Fund Policy and is recommending the following change to the existing Reserve Fund Policy:

Wastewater Replacement Reserve Target Update

On June 14th the Board adopted the 2023 Wastewater Financial Plan Study which recommended the District update its Capital Replacement Reserve Target. Staff and IB Consulting recommend adjusting the Wastewater Capital Replacement reserve targets from a minimum requirement of the twenty-year average CIP to one year of the 5-year average of capital funding and a target of two years of the five-year average of capital funding. Capital costs may vary substantially based on the size of a specific project and the number of projects that need to be addressed in one particular year. Therefore, adjusting the capital reserve targets to what is planned over the next five years will ensure funding is available and adjusts with the ebbs and flows of the District's capital planning.

A copy of the policy and proposed resolution are attached for the committee's review.

During November 2023, the Board received the Annual Comprehensive Financial Report for the fiscal year ended June 30, 2023 that included the following reserve balances:

Restricted Reserves:

Encina Wastewater Authority Reserve

\$445,200

Unrestricted Reserves:

<i>Reserve Designation</i>	<i>Reserve Balances</i>
<i>Operations Reserve</i>	\$ 2,984,725
<i>Replacement Reserve</i>	\$12,824,585
<i>Water Recycling Reserve</i>	\$ 754,353
<i>Emergency Reserve</i>	\$ 7,500,000
<i>Total Unrestricted Reserves</i>	\$24,508,863

Staff will provide an overview of the fiscal year 2023 reserve activity during the committee meeting.

reg:PJB

Attachment

RESOLUTION NO. 2410

**A RESOLUTION OF THE BOARD OF DIRECTORS OF THE
LEUCADIA WASTEWATER DISTRICT
ADOPTING A REVISED RESERVE FUND POLICY**

WHEREAS, the Leucadia Wastewater District (LWD) Board of Directors has adopted a Reserve Fund Policy; and

WHEREAS, the LWD Board of Directors conduct an annual review of the Policy and recommend modifications to the Policy as required;

NOW, THEREFORE, it is hereby resolved as follows:

1. The LWD Board of Directors adopts the LWD Reserve Fund Policy attached hereto as Attachment "1" and directs that it be implemented consistent with all applicable laws and related District policies.
2. This Resolution supersedes Resolution No. 2392.

PASSED AND ADOPTED by the Board of Directors of Leucadia Wastewater District this 14th day of February, 2024, by the following vote:

AYES:

NOES:

ABSENT:

ABSTAIN:

Chris Roesink, President

ATTEST:

Paul J. Bushee, General Manager

(SEAL)

ATTACHMENT 1

LEUCADIA WASTEWATER DISTRICT RESERVE FUND POLICY

Ref: [23-826224-8653](#)

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 adopted Asset Management Plan and 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: These reserves have restrictions on their use that are imposed by outside sources such as creditors, grantors, contributors, or laws or regulations of other governments.

Unrestricted Reserves: These 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 have been Designated.

Designated Reserves: These reserves are 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 the needs of LWD change.

C. LEUCADIA WASTEWATER DISTRICT RESERVES:

LWD maintains the following reserve funds:

1.0 **RESTRICTED RESERVE:**

a) Encina Wastewater Authority Reserve:

LWD is a member agency of the Encina Wastewater Authority Joint Powers Authority (EWA). EWA maintains member agency deposits on hand for emergencies and unanticipated expenditures. Annually on May 1, EWA will prepare a one-year capital program cash flow budget. The EWA Reserve amount will be established using the District's proportional share of EWA's average one-month requirement of the capital program.

2.0 **UNRESTRICTED DESIGNATED RESERVES:**

a) Wastewater 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 a Wastewater Operating Reserve balance at 33% of annual budgeted operating expenses.

b) Wastewater Replacement Reserve:

The Wastewater Replacement Reserve provides funds for capital replacement and refurbishment of existing wastewater facilities. These capital improvements are identified in LWD's adopted Asset Management Plan and Financial Plan. Wastewater Replacement Reserve funds accumulate in an orderly manner and are 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 Wastewater Replacement Reserve shall target a value of two years of the 5-year average of not exceed the total 20-year capital replacement costs for wastewater facilities as identified in the Financial Plan. The minimum target shall be one year of the 5-year average of capital replacement costs yearly average of the 20-year capital replacement costs is the minimum target balance to ensure that LWD is able to fund capital replacements as they are scheduled or needed.

c) Recycled Water Reserve:

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

d) Wastewater Emergency Reserve:

The Wastewater 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 Wastewater 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).

For further detail of the sources and uses of the above reserves, please refer to following section "D".

D. SOURCES AND USE OF FUNDS:

This section describes the sources and uses of funds for LWD reserves and includes maximum and minimum reserve balances and other informational notes.

RESTRICTED RESERVES

RESERVE	SOURCE OF FUNDS	USE OF FUNDS	NOTES
EWA	Funds transferred from LWD to EWA for deposit with EWA	Capital investment and operating expenditures made by EWA and funds transferred back from EWA to LWD due to reduction in deposit requirements	Deposit balances determined by EWA approved financial reserve policy. Deposit is for emergency and unforeseen EWA operating and capital needs.

UNRESTRICTED DESIGNATED RESERVES

RESERVE	SOURCE OF FUNDS	USE OF FUNDS	NOTES
Wastewater Operating	Operating income and interest earned on reserve	Wastewater operating expenses and transfers to other reserves	Reserve balance maintained at 33% of budgeted operating expenses. Excess (deficit) funds transferred to (from) Replacement Reserve.
Wastewater Replacement	Property taxes, interest earned on reserve, capacity fees, and other non-operating income. Also excess operating net income transferred from the Wastewater Operating Reserve, and excess interest earned on the Emergency Reserve	Replacement related capital expenditures and rate stabilization	<u>Reserve target is two years of the 5-year average of capital replacement costs for wastewater facilities as identified in the Financial Plan. Maximum reserve balance is 20-year capital replacement costs as identified in the Financial Plan. Minimum reserve target balance is one year of the 5-yearly average of the 20-year capital replacement costs as identified in the Financial Plan.</u>
Recycled Water	Recycled water sales, grant income, and interest earned on reserve	Recycled water capital improvement and replacement costs as well as water recycling operating expenses	Maximum reserve balance is 20-year capital replacement costs as identified in the Financial Plan.
Wastewater Emergency	Originally funded by board action. Interest earned on reserve. Additional funding as needed to maintain Reserve level.	Emergency repair or replacement expenditures	Reserve balance maintained at \$7,500,000 level. Excess (deficit) funds transferred to (from) Replacement Reserve.

EXHIBIT A

Leucadia Wastewater District Discussion of Emergency Reserve Fund

Maintaining a Wastewater Emergency Reserve Fund (WERF) provides the benefit of having funds available for emergency response to repair and/or replace capital facilities 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 WERF 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 WERF.

Alternatives	Pros	Cons
<p>Alternative 1: LWD maintain small WERF of \$1.0 million</p>	<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 WERF exhaustion that emergencies could not be responded to timely. 3) Reduced LWD liquidity and lesser financing qualifications. 4) Increased long term reliance on borrowing.
<p>Alternative 2: LWD maintain a Moderate WERF of \$7.5 million</p>	<ol style="list-style-type: none"> 1) Sufficient funds to adequately replace or repair two major LWD 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 WERF 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 of sewer service fee collections. 	<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>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 LWD that would be considered positively by financial markets when considering other financing issues.</p>	
<p>Alternative 3: LWD maintain a Large WERF 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 WERF funding alternatives above, LWD staff and the District Engineer recommend that LWD adopt Alternative 2 – LWD Maintain a Moderate WERF of \$7.5 million.

MEMORANDUM

DATE: February 1, 2024
TO: Investment and Finance Committee
FROM: Paul J. Bushee, General Manager
SUBJECT: **Financial Plan Tracking**



RECOMMENDED:

This item is presented for information purposes only.

DISCUSSION:

Tactical Goal: Financial/Financial Plan Update


During 2023, LWD updated the District's Financial Plan with the assistance of IB Consultants, Inc. The Board approved the updated plan on June 14, 2023. The purpose of the Financial Plan is to ensure the financial stability of the District through a long-term financial planning process that projects future financial conditions and provides guidance in our decision-making process.

Each year, following the completion of our annual audit, staff updates the Financial Plan model using these current audited figures and adds the following year's budget figures as well. Staff has completed this year's internal update and will present an overview of how LWD is currently tracking with the 2023 Comprehensive Financial Plan for the committee's information.

reg:PJB

MEMORANDUM

Ref: 24-8655

DATE: February 1, 2024
TO: Investment & Finance Committee
FROM: Paul J. Bushee, General Manager 
SUBJECT: **Proposition 218 Process and Schedule a Public Hearing to Consider Adoption of an Ordinance increasing the Sewer Service Charges for Fiscal Years 2025, 2026 and 2027**

RECOMMENDATION:

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

1. Authorize the General Manager to Proceed with the Proposition 218 Process; and,
2. Schedule a Public Hearing for June 12, 2024 to Consider Adoption of an Ordinance Increasing the Sewer Service Charges for Fiscal Years 2025, 2026 and 2027; or
3. Discuss and take other action, as appropriate.

BACKGROUND:

Tactical Goal: Financial/Sewer Rate Increase Notification & Hearing

The LWD Board of Directors adopted an updated Financial Plan Study on June 14, 2023. This plan provides critical information regarding required operating and capital expenditures for the next 20 years. The Financial Plan Study indicated that a sewer service charge increase was required beginning fiscal year 2025 in order for the District to meet the projected future operating and capital expenditures necessary to maintain the integrity of its collection system.

DISCUSSION:

Prior to this item, staff will have presented an update on how the District is tracking against the Financial Plan. Each year following the final audit, staff tracks the District's progress against the Financial Plan to monitor how the District's revenues, expenditures, and reserves compare with the Financial Plan's projections. Based on the Financial Plan Update tracking and previous proposed sewer rate increase discussions, staff recommends moving forward with the planned sewer service rate increase for fiscal year 2025 and proceed with the Proposition 218 Notice process for fiscal years 2025, 2026 and 2027.

A draft Proposition 218 Notice is attached for the IFC's review. This notice meets State legal and regulatory requirements and will be sent to the LWD customer base 45 days prior to the June public hearing, as required.

Staff requests that the IFC recommend that the Board of Director's authorize staff to proceed with the Proposition 218 process and schedule a public hearing to consider adoption of an Ordinance increasing the sewer service charges for fiscal years 2025, 2026, and 2027.

reg:PJB
Attachment

PUBLIC HEARING INFORMATION

A public hearing will be held on the proposed increases to sewer service charge rates in fiscal years 2025, 2026, and 2027.

*The public hearing will be held on **Wednesday, June 12, 2024 at 5 p.m.** in the Boardroom located at **1960 La Costa Avenue Carlsbad, CA 92009***

You are welcome to speak at the public hearing, but official protests must be made in writing. Oral comments at the public hearing will not qualify as formal protests. If you would like to protest the proposed increases, please submit your protest in writing by the close of the public hearing. You may hand deliver your written protest or mail it to the Leucadia Wastewater District at 1960 La Costa Avenue, Carlsbad, CA 92009. Protests must be signed by the property owner or ratepayer and include your printed full name, assessor parcel number, and rate you are protesting. One protest notice is allowed per parcel in calculating a majority protest to the proposed increase.

The Board of Directors will hear and consider oral testimony and written material submitted regarding the proposed rate increases at the hearing. If, by the close of the public hearing, written protests against the rate increase are not presented by a majority of property owners, the Board of Directors will be authorized to adopt an ordinance to increase the sewer rate charge. At the close of the public hearing, the Board of Directors will consider and may approve the rate increases. There is a 120-day statute of limitations for challenging the rates.

The time and place for this meeting will also be published in newspaper notices and posted on www.lwwd.org.



1960 La Costa Avenue, Carlsbad, CA 92009

NOTICE OF PUBLIC HEARING
Sewer Service Charge Increase

The Leucadia Wastewater District is considering sewer service rate changes that will affect your property tax bill. This document explains the public hearing and protest process, the rate increases being proposed and further explains the reasoning behind the proposed rate adjustments.

RATE INCREASE BREAKDOWN

The Leucadia Wastewater District Board of Directors are proposing rate increases for the next three fiscal years in accordance with the following chart. All rates are based on one Equivalent Dwelling Unit (EDU).

FISCAL YEAR	ANNUAL RATE	MONTHLY RATE
2024 (current)	\$457.42	\$38.12
2025	\$516.96	\$43.08
2026	\$579.00	\$48.25
2027	\$636.96	\$53.08

The San Diego County average monthly sewer charge in January 2024 was \$58.79 per month per EDU or \$705.42 per year per EDU.

1 Wastewater User Charge Survey Report, January 2024

ABOUT LEUCADIA WASTEWATER DISTRICT

The Leucadia Wastewater District (District) was formed in April 1959 pursuant to the County Water District Law. Established as an Enterprise Special District, the District is authorized to provide wastewater collection and treatment services, and to levy rates and fees to support those services.

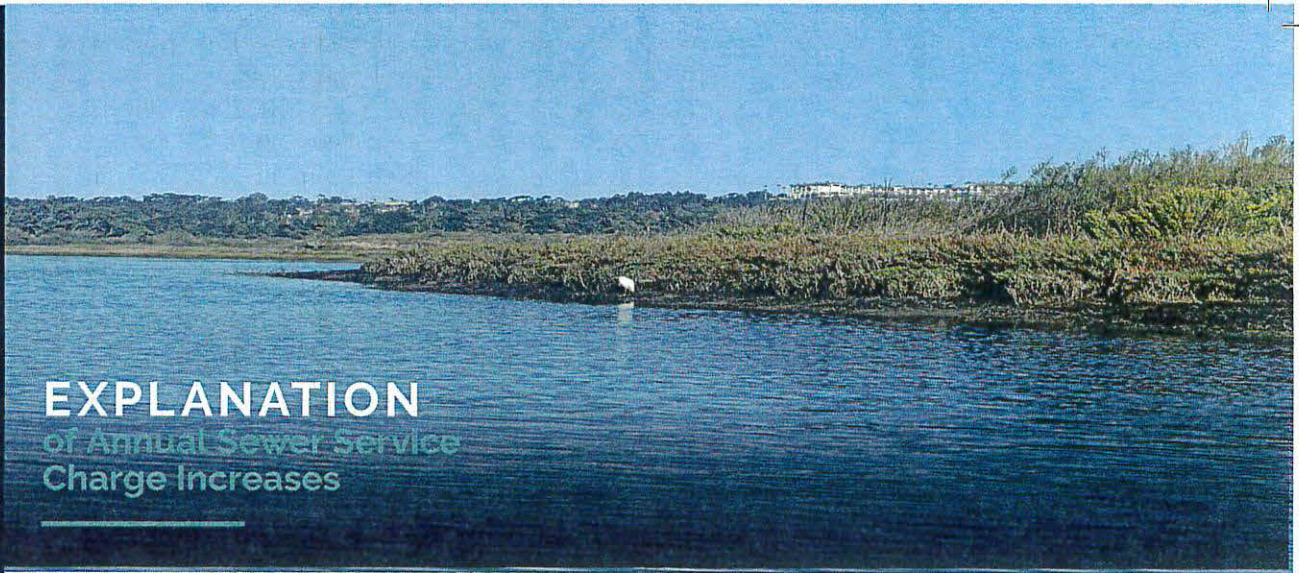
The District provides wastewater service to the Leucadia and Village Park areas of Encinitas and the La Costa area of Carlsbad. The District encompasses 16 square miles and serves approximately 63,000 residents. Wastewater from the District's service area is transported to the Encina Water Pollution Control Facility where it is treated to federally-mandated standards to protect public health. The Encina plant is a regional facility located in Carlsbad that is jointly owned by the District and five other public entities.

The District also owns and operates the Gafner Water Reclamation Facility, which has a treatment capacity of one million gallons per day. Recycled water produced at the Gafner Facility is sold to the Omni La Costa Resort and Spa to irrigate its Legends' golf course.

Leucadia Wastewater District
1960 La Costa Avenue
Carlsbad, Ca 92009

 www.lwwd.org  info@lwwd.org
 (760) 753-0155  (760) 753-3094

Monday-Friday 8am-5pm



EXPLANATION of Annual Sewer Service Charge Increases

The Leucadia Wastewater District proactively plans for increases in costs associated with operations, maintenance, and replacement or rehabilitation of its infrastructure. The District also pays a percentage of the cost to operate and maintain the jointly owned Encina Wastewater Treatment Plant. To cover anticipated cost increases, the District proposes to raise wastewater rates over the next three years.

The District used an engineering firm to develop an Asset Management Plan which determines when capital facilities will need to be replaced, and at what cost. The District used a financial firm to prepare a Financial Plan Study, which projects the District's expenditures and revenues over the next twenty years, and determines the timing of needed rate increases.

The proposed sewer rate increases for the next three years were recommended in the latest Financial Plan Study. These increases are necessary to meet the operations and infrastructure needs of the District. It is anticipated that the District will spend approximately \$61 million for operating (\$29 million) and capital replacement and rehabilitation (\$32 million) costs over the next three years.

The District's current sewer service charge is \$38.12 per month, or \$457.42 annually, per household (also called an Equivalent Dwelling Unit or EDU). Currently, the District has one of the lowest sewer service rates in San Diego County. To help keep costs down, the District utilizes a pay as you go methodology, meaning the District collects funds ahead of time to pay for upcoming capital needs and has no financing debt. This helps the District, and its customers save significantly on financing costs and interest expense.

Since the last rate increase, the District has continually inspected its sewer lines and pump stations, and has maintained them in excellent working order. The District's efforts have resulted in a strong record of environmental stewardship. The work completed over the prior three years cost approximately \$47 million in operating (\$24 million) and capital replacement (\$23 million) expenses.